

DEPARTMENT OF DEFENSE PROPOSALS RELATING TO MILITARY COMPENSATION

HEARING

BEFORE THE

COMMITTEE ON ARMED SERVICES

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DEPARTMENT OF DEFENSE PROPOSALS RELATING TO MILITARY COMPENSATION

TUESDAY, MAY 6, 2014

U.S. SENATE,
COMMITTEE ON ARMED SERVICES,
Washington, DC.

The committee met, pursuant to notice, at 9:35 a.m. in room SH-216, Hart Senate Office Building, Senator Carl Levin (chairman) presiding.

Committee members present: Senators Levin, Reed, Nelson, Hagan, Manchin, Shaheen, Gillibrand, Blumenthal, Donnelly, Hirono, Kaine, King, Inhofe, McCain, Sessions, Ayotte, Fischer, and Graham.

OPENING STATEMENT OF SENATOR CARL LEVIN, CHAIRMAN

Chairman LEVIN. Good morning, everybody.

The committee meets this morning to review Department of Defense (DOD) proposals relative to the growth of personnel costs. We welcome the Joint Chiefs of Staff to testify on these proposals, to explain why they support them, what their impact is on the force, and their impact on other areas of the defense budget.

Our witnesses on the first panel are General Martin E. Dempsey, USA, Chairman of the Joint Chiefs of Staff; Admiral James A. Winnefeld, Jr., USN, Vice Chairman of the Joint Chiefs of Staff; General Raymond T. Odierno, USA, Chief of Staff of the Army; Admiral Jonathan W. Greenert, USN, Chief of Naval Operations; General Mark A. Welsh III, USAF, Chief of Staff of the Air Force; General James F. Amos, USMC, Commandant of the Marine Corps; and General Frank J. Grass, ARNG, Chief of the National Guard Bureau.

We will have a second panel consisting of non-government witnesses which I will introduce later.

It is not often that all the members of the Joint Chiefs of Staff testify before us at a single hearing. It is not often that we have the opportunity to thank them as one group for the contributions that they and those that they lead make to the well-being of our Nation. Thank you, gentlemen. Thank you for the service of you and yours.

The distinguished nature of this panel reflects the importance of the questions before our committee this year. When we mark up the National Defense Authorization Act (NDAA) for Fiscal Year 2015 later this month, the decisions that we make on compensation, force structure, end strength, readiness, and modernization

will have a far-reaching impact on the men and women of our Armed Forces and on the future of our military and our country.

The DOD 2015 budget request comes at a time of tremendous challenge and great uncertainty for the Nation and for the military. DOD faces a highly constrained fiscal environment in 2015. The \$496 billion top line for DOD remains the same from the funding levels in fiscal years 2013 and 2014 and remains more than \$30 billion below the funding provided to DOD in fiscal years 2010, 2011, and 2012. Sequestration has already taken its toll on training, readiness, and modernization, and sequestration threatens to return full blast next fiscal year unless, hopefully, we act to mitigate its impact before then.

These fiscal constraints have led DOD to propose a number of painful measures to reduce future expenditures. The budget before us proposes significantly lower end strengths for the ground forces through 2019, including a reduction of 50,000 more than had been previously planned in Active Duty Army end strength with smaller percentage reductions in the Guard and Reserve, as well as a reduction of over 16,000 in Active Duty Air Force end strength this year alone. The budget calls for retiring the Air Force's A-10 and U-2 aircraft, inactivating half of the Navy's cruiser fleet, reducing the size of the Army's helicopter fleet by 25 percent, and terminating the Ground Combat Vehicle program. Those are among other cuts.

If the budget caps in law remain in effect in fiscal year 2016 and beyond, DOD has informed us that, among other cuts, it would request further reductions in end strength, the retirement of the entire KC-10 tanker fleet and the Global Hawk block-40 fleet, reduced purchases of Joint Strike Fighters and unmanned aerial vehicles, the inactivation of additional ships, and the elimination of an aircraft carrier and a carrier air wing.

The legislative proposals that we are considering this year include a number of measures relative to military pay and benefits, and that is what we will be discussing here this morning. These include setting a pay raise for servicemembers below the rate of inflation, freezing pay for general and flag officers, limiting increases in the housing allowance below the rate of inflation, reducing the subsidy to commissaries, and making changes to TRICARE that would result in increased fees and cost-shares for most non-Active Duty beneficiaries. In all, these pay and benefit proposals would result in savings to DOD of over \$2 billion in fiscal year 2015 and more than \$31 billion over the Future Years Defense Program (FYDP).

General Dempsey and his senior enlisted advisor, Sergeant Major Bryan Battaglia, recently wrote to this committee that "these difficult choices will reap large savings over time to address the growing imbalance in our accounts, allow us to invest in combat readiness and force modernization, and still enable us to recruit and retain America's best." The letter went on to say that "delaying adjustments to military compensation will cause additional, disproportionate cuts to force structure, readiness, and modernization."

We surely must do all that we can to minimize the adverse effect of the personnel proposals. But as long as the statutory budget

caps remain in place, we do not have the option of simply rejecting the compensation proposals. Under the statutory budget caps, we would then have to make alternative cuts.

I look forward to, as we all do, the testimony of our witnesses. Again, we thank you all and those with whom you serve for your great service to our country.

Senator Inhofe.

STATEMENT OF SENATOR JAMES M. INHOFE

Senator INHOFE. Thank you, Mr. Chairman.

Over the last decade, our Nation has depended upon the courageous service and sacrifice of our military members and their families for its security. In return, we have steadily increased their pay and benefits, and rightly so. We should be proud of this. It is exactly what we should do for those who risk their lives to keep us safe.

However, misguided fiscal priorities of the Obama administration and the runaway entitlement spending have forced massive cuts to national security spending such as we have never seen before. These cuts have driven our military into a readiness crisis. Squadrons have been grounded. Ships have been tied to piers. Training rotations for ground forces have been cancelled while much needed modernization programs have been delayed or cancelled. We all know this.

Retired Navy Admiral John Harvey recently said that we are sending the wrong signal to the force that is serving today, the one that fought two wars in the last decade, and the force we are dependent upon to re-enlist tomorrow. We are telling them they just cost us too much, that they constitute a ticking time bomb, and that their sacrifice is eating us alive. We are telling them that we are looking for a way out of fulfilling our commitments to them. This is not the right signal to send those who volunteered to serve in a time of war.

I think the chairman did a good job of listing the systems that we have that we are no longer going to be able to keep. The effects of these cuts are undermining the military's ability to protect the Nation. Our military leaders have painted a stark and troubling picture of this reality. Because of misguided fiscal priorities, we are now being forced to make false choices between paying our troops and their families what they deserve and giving them the training and capabilities required to accomplish their mission and return home safely to their loved ones. This is an irresponsible and reckless choice. If we spent what I think is necessary on national security, we would not be in the mess that we are in today.

I am looking forward to hearing from our witnesses.

Thank you, Mr. Chairman.

Chairman LEVIN. Thank you very much, Senator Inhofe.

General Dempsey, welcome.

STATEMENT OF GEN MARTIN E. DEMPSEY, USA, CHAIRMAN OF THE JOINT CHIEFS OF STAFF

General DEMPSEY. Mr. Chairman, thank you, and Ranking Member Inhofe, and other distinguished members of the panel.

You are right, Mr. Chairman, we do not often appear as a group before you and, in particular, with our senior enlisted leaders right behind us. What I would like to do at the beginning here is since it is unlikely we will see you as a group in your role as chairman between now and the end of the year—at least I hope not—we would like to thank you very much for your steadfast and passionate support of America's Armed Forces, the men and women who serve and their families. Thank you.

Chairman LEVIN. Thank you very much, General.

General DEMPSEY. I want to thank you all for the opportunity to discuss military pay and compensation, but as you mentioned, this is only one part of a much broader effort to bundle reforms in order to keep ourselves in balance. This particular issue, pay, compensation, and health care, is an important and deeply personal issue for our servicemembers and their families.

As I have testified in the past, we are working to make sure that the joint force is in the right balance to preserve military options for the Nation in the face of a changing security environment and a declining budget. We have been tasked to reduce the defense budget by up to \$1 trillion over 10 years while upholding our sacred obligation to properly train, equip, and prepare the force. This requires carefully allocating our resources across the accounts, restoring the readiness we have already lost, and continuing to make responsible investments in our Nation's defense.

As I have testified before, this requires certainty. It requires time and it requires flexibility. While we have a degree of certainty in our budget for the next 2 years—really for this year—we still do not have a predictable funding stream nor the flexibility and time we need to reset the force for the challenges ahead. We cannot do this alone. Our recommendations have lacked congressional support, notably our request to reduce base infrastructure and retire weapon systems that we no longer need and cannot afford.

In the meantime, we are continuing to hemorrhage readiness and cutting further into modernization. Risk to the performance of our mission and risk to those who serve continues to grow.

As one part of a broader institutional reform, the Joint Chiefs, our senior enlisted leaders, and select mid-grade level leaders have examined pay and compensation options for more than a year. We support the three DOD-wide principles guiding our proposals to rebalance military compensation.

First, we are not advocating direct cuts to troops' pay. Rather, this package slows the growth of basic pay and housing allowances while reducing commissary subsidies and modernizing our health care system.

Second, we will ensure that our compensation package allows us to continue to attract and retain the quality people we need. If we step off on this path—and we will watch the way the force reacts, and if it reacts, we will be back to you with recommendations on how to adjust, but we have to take that step.

Third, the savings will be reinvested into readiness and into modernization.

In all cases, we will continue to prioritize our efforts that focus on wounded warriors and on the mental health challenges facing our force.

We have not requested any changes to military retirement. We are awaiting recommendations from the Military Compensation and Retirement Modernization Commission (MCRMC) expected in February 2015. But to be clear and to restate it, we do support grandfathering any future changes to the retirement program.

We are seeking \$31 billion of savings in pay, compensation, and health care over the FYDP. If we do not get it, we will have to take \$31 billion out of readiness, modernization, and force structure over that same period. Delaying the decision until next year will likely cause a 2-year delay in implementation, which would force us to restore approximately \$18 billion in lost savings.

In short, we have submitted a balanced package that meets budgetary limits, enables us to fulfill the current defense strategy, and allows us to recruit and retain the exceptional talent that we need. Our people are our greatest strength, and they do deserve the best support we can provide.

As leaders, we must also exercise proper stewardship over the resources entrusted to DOD. We have enough information to make these changes now. We remain committed to partnering with Congress to make these and other difficult choices facing us.

Thank you.

[The joint prepared statement of General Dempsey, Admiral Winnefeld, General Odierno, Admiral Greenert, General Welsh, General Amos, and General Grass follows:]

PREPARED STATEMENT BY THE JOINT CHIEFS OF STAFF

Chairman Levin, Ranking Member Inhofe, and distinguished members of the committee, thank you for your invitation to address the critical issue of pay and compensation. As the Joint Chiefs testified in March and April 2014, we must rebalance the Joint Force to preserve military power and maximize options for the Nation in the face of an uncertain security environment and a declining budget. Achieving the right balance is a significant challenge, but it remains a strategic imperative for the Department of Defense (DOD) and our Nation.

It requires that we carefully allocate our resources across readiness, modernization and force structure accounts, and that we sufficiently compensate the Joint Force—while seeking to restore the readiness and modernization we have already lost. Above all, we must fulfill our sacred obligation to properly train, equip, and prepare the Joint Force to fight and win. We cannot do this alone.

The Department needs congressional support to achieve institutional reform on all fronts. We cannot continue to expend scarce resources on unneeded and unsustainable weapons systems and infrastructure. These reforms have often lacked congressional support, notably our requests to reduce infrastructure and weapon systems.

We have examined pay and compensation options within our budget for more than a year. This process included our most senior officer and enlisted leaders and select mid-grade servicemembers—leaders who fully recognize that it is our people who make us the most capable military in the world. Our men and women will always be our greatest strength, and they deserve the best possible support we can provide. However, as leaders, we all must exercise good stewardship over the resources entrusted to the Department, including competitive pay and compensation consistent with a ready and modern force.

In our deliberations, we collectively assessed how a wide range of compensation proposals would affect our troops at every rank, and over the course of their service. We concluded that we can no longer put off rebalancing our military compensation. Failure to approve this compensation package will require us to take \$31 billion in savings over the Future Years Defense Program (FYDP) out of readiness, modernization, and force structure.

The Joint Chiefs and our senior enlisted leaders support the three DOD-wide principles guiding these proposals. First, we are not advocating direct cuts to troops' pay. Rather, this package slows the growth of basic pay and housing allowances in addition to reducing commissary subsidies, and simplifies and modernizes our

health care system. Second, we will ensure that our compensation package allows us to continue to attract and retain the quality people we need. Third, the savings will be reinvested into warfighter readiness and force modernization. In all cases, we will continue to prioritize efforts that focus on wounded warriors and mental health.

Our proposals reflect well-informed choices that will reap significant savings over time. They were reviewed by the administration, have the full support of the Secretary of Defense, and are submitted as part of the President's budget for fiscal year 2015. Implementing this compensation package now will help us remain the world's best-trained, best-led, and best-equipped military.

PROPOSED PAY AND COMPENSATION PROPOSALS

In the late 1990s and through the post-September 11 period, with the help of Congress, we substantially increased the glideslope of compensation growth. We are now requesting more modest pay increases in fiscal year 2015 to slow the growth rate of basic pay beyond 2015. Flag and general officer basic pay will be frozen for at least 1 year. We are also requesting that we slow the growth of tax-free housing allowances, reduce the direct subsidy to commissaries, and modernize our TRICARE health insurance program by creating a single plan that promotes wellness and encourages members to use the most affordable means of care. Slowing the rate of growth of these programs will obviously affect buying power over time, but they do not directly cut pay. As noted above, we have the predictive tools and can both assess and illustrate the effect by rank and over time.

We have not requested changes to military retirement benefits. We are awaiting the results of the Military Compensation and Retirement Modernization Commission (MCRMC) before considering reforms in that area. But, we want to reiterate our ardent support of the principle of grandfathering for any future changes to military retirement plans.

Congress has taken some important steps in recent years to control the growth in compensation spending, but we must do more. A holistic and comprehensive approach is required. Continuous piecemeal changes will only exacerbate uncertainty and doubt among our servicemembers about whether important benefits will be there in the future.

The following proposals represent a carefully informed package that enables each of the Military Services to invest more in critically-important readiness and modernization while maintaining a well-trained, ready, agile, motivated, and technologically-superior force. These savings will still allow us to offer competitive and sustainable benefits to ensure we recruit and retain the right talent across our ranks. We also preserve special pay and incentive authorities which the Services can use as levers to ensure they recruit and retain the specialties they need.

Basic Pay

For fiscal year 2015, we have requested a 1 percent raise in basic pay for military personnel, except general and flag officers whose pay will be frozen for 1 year. Basic pay raises in future years will be similarly restrained, though modest increases will continue.

Basic Allowance for Housing

We request gradually slowing the growth rate of the tax-free basic allowance for housing until Basic Allowance for Housing (BAH) ultimately covers approximately 95 percent of the average servicemember's housing expenses. We also seek to eliminate renter's insurance costs from the allowance. This will result in an average 6 percent increase in out-of-pocket cost from today, but far less than the 18 percent out-of-pocket cost in the 1990s. Such changes will be phased in over several years to allow members to plan accordingly.

Additionally, the rate protection feature already in place for BAH will remain. A servicemember's BAH will not be reduced so long as that member retains eligibility for BAH at the same location and does not change dependency status or lose rank. Servicemembers in the same pay grade but living in different areas would have their BAH rates adjusted proportionally to ensure members retain the same purchasing power regardless of the cost of housing in their respective areas. Adjusted rates will remain publicly available to allow members to make informed decisions about housing. Just like today, depending on servicemembers' actual housing choices, they may or may not have to pay out-of-pocket costs.

Commissaries

The DOD today operates 245 grocery stores worldwide and spends about \$1.4 billion per year to provide subsidized groceries "at cost" plus a 5 percent surcharge.

The subsidy pays for employee and overhead costs including transportation. The budget proposal would begin phasing out much of the subsidy over 3 fiscal years, beginning with \$200 million less in fiscal year 2015 and totaling \$1 billion by fiscal year 2017. This phased approach will ultimately provide the Defense Commissary Agency with approximately \$400 million per year to continue to pay overhead costs of operating about 25 remote locations in the United States and 67 overseas locations.

We recognize the value of commissaries to our servicemembers, military families, and retirees, and our plan does not direct the closure of any location. Once fully implemented, commissary shoppers will receive an average 10 percent discount compared to most private sector grocery stores—and the level of savings may increase through internal operating efficiencies. Overall, commissaries will continue to be a valuable benefit to our people, particularly to those serving abroad.

Healthcare

The costs to the taxpayer for military healthcare have risen from \$19 billion in 2001 to \$48 billion in 2013. Increases have been caused both by growth in private-sector healthcare costs and by the creation of a new healthcare program for military retirees 65 and older, TRICARE for Life. We propose simplifying and modernizing our TRICARE health insurance program, as the fundamental structure has not been revised since its inception in the mid-1990s. We would consolidate Prime, Extra, and Standard into a single plan that encourages routine wellness visits and use of the most affordable means of care such as Military Treatment Facilities (MTF), preferred providers, and generic prescriptions.

Servicemembers on active duty would have no out-of-pocket expenses regardless of the point-of-care delivery (MTFs, network, or out-of-network) and will have the highest priority for MTF care. Without question, we will continue to fully fund and support our wounded, ill, and injured warrior programs. To protect the most vulnerable, the proposal treats survivors of members who die on active duty and those who are medically retired and their family members as active duty family members for purposes of enrollment fees, co-pays, deductibles, and the annual catastrophic cap. Likewise, family members residing with active duty servicemembers in areas remote from MTFs will continue to be treated as “in network” families even if there are no network care providers in the remote location.

In addition to moving to the new TRICARE Single Plan, we have resubmitted our fiscal year 2014 proposal which seeks modest annual enrollment fees for TRICARE for Life coverage and further adjusts the pharmacy co-pay structure for retirees and active duty families. These pharmacy changes provide incentives to use mail order and generic drugs. For pharmacies, the increased co-pays will be phased in over 10 years, while enrollment fees for TFL recipients will only apply to those who turn 65 after enactment.

The cumulative effect of the proposed TRICARE fee increases still ensures beneficiary out-of-pocket costs remain far below costs to military beneficiaries in the mid-1990s, and remain far better than virtually every comparable employer in the United States today. By fiscal year 2019, a retiree family of three utilizing civilian care providers will pay about 11 percent of total health care costs—well below the original 27 percent of the mid-1990s. Overall, the TRICARE benefit will remain one of the most comprehensive benefits in the country, as it should.

COSTS OF DELAY OR INACTION

Current and future funding levels require adjustments to pay and compensation now to avoid further degradation of readiness and modernization. We are working with and waiting for the MCRMC recommendations with regard to retirement, where we believe special study is required. However, based on multiple internal and external analyses as well as our review of Quadrennial Review of Military Compensation (QRMC) efforts since the late 1990s, we possess the needed information and senior leader consensus to make proposals now on other aspects of compensation.

If Congress delays these pay and compensation changes by 1 year, we would forfeit \$10 billion in savings over the FYDP. Moreover, waiting for the Commission would likely cause a 2-year delay in implementation, and we will be forced to restore approximately \$18 billion in lost savings over the FYDP. Conversely, if we make these modest changes now, we will see annual savings of nearly \$12 billion by the mid-2020s. If Congress rejects all of the proposals, we will not only have to find \$2.1 billion in 2015, but we will also have to find \$31 billion over the FYDP to pay for the shortfall. In the near-term, we will be forced to take these funds out of readiness. In the mid-term, it will diminish our ability to rebalance during the

FYDP. Beyond the FYDP, we will see substantial impacts to modernization and our ability to field the Joint Force we need in the future.

It is also worth noting that today's readiness problem will be tomorrow's retention problem. Young men and women who join the U.S. military to lead a tank crew, fly an F-16, or serve on a submarine will soon lose interest in joining or staying in the military if they lack training or proper equipment to complete their mission.

Again, we have enough information to request these nominal pay and compensation changes now. We are not infringing on the Commission's charter. In fact, implementing these proposals this year will allow the MCRMC to account for them in their recommendations in February 2015. We look forward to working with Congress and the Commission when the MCRMC recommendations are released.

We know that this budget features difficult choices. They were difficult for us. Understandably, they are difficult for Congress. But we have created a balanced package of changes that meets budgetary limits and enables us to fulfill the current defense strategy, albeit with increased risk in some areas.

PART OF BROADER INSTITUTIONAL REFORM

Our pay and compensation proposals are only a part of a wider effort to achieve balance across the Joint Force. Before recommending these changes, we first focused on implementing management reforms and reducing overhead and operating costs. This has included eliminating duplication, reducing management headquarters, and pursuing efficiencies from contracting and weapons systems to infrastructure.

We were successful in identifying approximately \$94 billion in efficiencies across the FYDP. This included a 20 percent cut in headquarters' budgets, reduction in contractor funding, civilian manpower restructuring, healthcare cost reductions (separate from those affecting beneficiaries), terminating or deferring weapons programs and military construction projects, a base realignment and closure round for 2017, continued acquisition reform, and auditable financial statements. These efforts are in addition to continuing to implement the \$245 billion in efficiencies we have submitted over the last three budget cycles.

Reducing overhead continues to be important, but such savings will not by themselves permit us to meet targets under either the President's budget or sequestration levels. To meet reductions of the scale required, we also had to reduce the size of our military force. As a result, relative to levels expected by the end of this year, total active duty military personnel will decline by about 6 percent by the end of the FYDP in 2019; Guard and Reserve personnel will decline by 4 percent; and civilian personnel will decline by 5 percent.

Notably, although military pay and benefits account for about 33 percent of the budget, our pay and compensation proposals account for only 10 percent of the planned cuts. The remaining 90 percent of the cuts come from readiness, modernization, and force structure—making the need for a balanced application of cuts across accounts, wherever possible, even more urgent.

CONCLUSION

As a global leader, the United States requires a robust national defense strategy and a military that can implement that strategy effectively and sustainably. We face increasing risk if we do not adapt to provide more responsible stewardship of our Nation's resources and security interests. This can only be achieved by strategic balance across the Joint Force enabled, in part, by the compensation package the DOD is presenting to Congress. It will require Congress' partnership with DOD in making these and other difficult choices.

The opportunity is ours in the months ahead to carry the hard-earned lessons from our Nation's wars into the context of today, to set the conditions to prepare the Joint Force to address the challenges of tomorrow, and to sustain and support our dedicated men and women in uniform and their families. We look forward to seizing this opportunity together.

Chairman LEVIN. Thank you very much, General.
Admiral?

STATEMENT OF ADM JAMES A. WINNEFELD, USN, VICE CHAIRMAN OF THE JOINT CHIEFS OF STAFF

Admiral WINNEFELD. Chairman Levin, Ranking Member Inhofe, distinguished members of the committee, thank you also for the opportunity to appear today.

I would like to add some additional context to Chairman Dempsey's introduction.

I think it is important to recall that in the 1990s, military compensation had fallen to a deeply unsatisfactory level relative to the rest of the working population in America. With the help of Congress, we took action to close that gap which involved raising the trajectory of our compensation well above inflation. Those increases worked.

In 2001, U.S. median annual household income equated to the direct pay of an average E-7. Today it is roughly equal to the direct pay of the average E-5 and trending towards the average E-4 who now surpasses the U.S. median annual household income about 8 to 10 years earlier in his or her career than before and also receives health care, family services, leave, educational benefits that well surpass the civilian sector, along with the potential for a generous retirement. In the process, this E-5 has moved from being in the 50th percentile of civilians with comparable education and experience in 2000 to being around the 90th percentile today.

I do not think any of us at this table would say our people are overpaid, and we would love to be able to maintain that level of compensation. But if our joint force is to be sized, modernized, and kept ready to fight, we are going to have to place compensation on a more sustainable trajectory. We do not want to return to the 1990s. We are only asking for gradual adjustments to ensure we can recruit and retain the best our Nation has to offer while doing everything else that is required to fulfill our obligation to protect the United States within the means we are given.

These changes would only account for about 10 percent of our planned cuts within an area that accounts for fully one-third of our budget. The other 90 percent of our cuts are going to come out of the other two-thirds of our budget that buys things.

We have carefully thought through every one of these recommendations over the course of many meetings. Even though they are fair and they are gradual, there is still some disinformation out there. For example, some say we are cutting pay. That is not true, as Chairman Dempsey said. We quickly eliminated any proposal that would do that.

Others say we are trying to renege on promised health care benefits. Again, not true. We are actually trying to simplify a bewildering system while incentivizing our people to help us contain costs. We will continue to provide the same high quality health care to our troops and our retirees, and it will continue to be free to those on Active Duty.

Still others say a 1 percent pay raise is not fair when the Employment Cost Index (ECI) is going up at about 1.8 percent. But I would point out that our DOD civilians have just been through 3 years of no pay increase, and they just received 1 percent this year.

Finally, some are also suggesting that we want to close all State-side commissaries. We have never considered that in any meeting that I have ever attended. In fact, we believe our commissaries are an important part of the benefits we offer our families. But we want those stores to have to work as hard as our unsubsidized exchanges in providing a good deal for our people. We think the De-

fense Exchange Commissary Agency (DECA) can find at least the first year's savings through efficiencies, not price increases, especially since we exempted them from the 20 percent staff cuts that everyone else is taking.

Congress should also repeal legislation apparently lobbied for by the food industry that prohibits the sale of generics at our commissaries which takes money right out of our people's pockets. It really does. I recently bought a generic bottle of ibuprofen at a post exchange, which is not prohibited from carrying generics, at a 73 percent savings over the brand name that the commissary is required to carry right next door. Efficiencies in generics could easily offset the savings we are asking for in 2015 from our commissaries, savings that will enhance the combat readiness of our warriors that they count on us to provide.

Now, we were not confirmed for these positions by the Senate to only make the easy choices. We have to make the hard ones too, choices that have only gotten harder with recent budget cuts. We need your support. My Service colleagues will now describe what will happen if we do not receive that support and we have to ask our young men and women to fight with \$31 billion worth of a smaller, less modern, less ready force.

Thank you again for the opportunity to speak today, and I look forward to hearing your views and your questions. Thank you.

Chairman LEVIN. Admiral, thank you so much.

General Odierno?

**STATEMENT OF GEN RAYMOND T. ODIERNO, USA, CHIEF OF
STAFF OF THE ARMY**

General ODIERNO. Thank you, Chairman Levin, Ranking Member Inhofe, all the other committee members. It is always a pleasure to be here to discuss these important issues.

I have had the privilege to lead our men and women of all Services in both peace and war. I have witnessed firsthand their selfless service, dedication, and sacrifice. The All-Volunteer Army has performed phenomenally during the longest conflicts in our Nation's history. But it is imperative we discuss and understand the appropriate level of compensation not only to recognize the sacrifice of our soldiers and their families, but to ensure we sustain the premier All-Volunteer Force.

Pay and compensation benefits must remain competitive in order for us to recruit and retain the very best for our Army and the joint force. However, pay and compensation must be balanced, along with end strength, readiness, and modernization of our force. Thus, it is necessary that we take a comprehensive look at every aspect of our budget.

I fully endorse these DOD proposals that do not directly cut our soldiers' pay but slows the rate of growth from any allowances that are simply unsustainable.

Additionally, it is essential that we gain more efficiencies in our commissaries and our health care, specifically TRICARE. I believe the proposals recognize the incredible service and sacrifice of our soldiers and their families by allowing us to better balance future investments in readiness, modernization, and compensation. These are difficult but necessary decisions.

Taking care of soldiers is not just about providing them competitive pay and compensation benefits. It is also about having the right capacity in order to sustain a reasonable personnel tempo, invest in the most modern equipment, and maintain the highest levels of training readiness.

If the Army does not get the \$12 billion in compensation savings over the Program Objective Memorandum (POM), we will have to look at a further reduction in end strength, lower our overall readiness posture, and slow even further our current modernization programs. It is my opinion that if Congress does not approve our compensation recommendations, then you must end sequestration now and increase our top line.

We must keep in mind that it is not a matter of if but when we will deploy our joint force to defend this great Nation. We have done it in every decade since World War II. It is incumbent on all of us to ensure our soldiers are highly trained, equipped, and organized. We must balance our resources effectively to do that. If we do not, our soldiers will bear the heavy burden of our miscalculations on the battlefield.

I am proud to wear this uniform and represent all the soldiers of the U.S. Army. Their sacrifices have been unprecedented over the last 13 years. We must ensure we provide them with necessary resources for their success in the future.

Thank you, Mr. Chairman.

Chairman LEVIN. Thank you very much, General Odierno. Admiral Greenert?

STATEMENT OF ADM JONATHAN W. GREENERT, USN, CHIEF OF NAVAL OPERATIONS

Admiral GREENERT. Thanks, Chairman Levin, and many thanks to you and Barbara for your service through the years. We appreciate it.

Senator Inhofe and distinguished members of the committee, I am proud to represent 633,000 sailors, Navy civilians, and their families and especially the 50,000 sailors deployed around the globe today, along with their fellow marines. Their dedication and resilience continue to inspire me, and our citizens can take great pride in the daily contributions of their sons and daughters in places that really matter.

When I appeared before you in March, I testified that we were compelled to make some difficult choices in our President's fiscal year 2015 budget submission. 90 percent of the reductions in our President's fiscal year 2015 submission focused on procurement, force structure, and modernization, as well as overhead reduction, contract efficiencies, and buying smarter. The area of last choice that we addressed in the budget was cost growth of our pay and compensation.

Now, for over a year, as the chairman mentioned, the Master Chief Petty Officer of the Navy, who is with me today, and I traveled around the fleet and bases, and we listened to our sailors and families, especially those who would be most affected by these proposed changes, both the increases and the decreases. The vast majority of our sailors and families told us that they believe their total

compensation package matches well with, and in some cases exceeds, their civilian counterparts.

But let me be clear. I do not believe our sailors are overpaid, nor do they believe that. Our sailors and families are not enthusiastic about a compensation reform, but they were clear to us that their quality of service, their work environment needs to improve. They understand that in this fiscal situation we face hard choices. We cannot have it all. The reality within this given budget, the one that we have been given, is we cannot sustain our current personnel costs trajectory, and we need to address this problem sooner than later.

Today, our total force personnel costs consume about 40 percent of our given budget, and that is up from 32 percent in 2000. That share continues to rise. In fact, since 2001, we reduced Navy's end strength 60,000 sailors, but the growth in personnel costs alone consumed 60 percent of those savings. In other words, although the Navy manpower has shrunk significantly, at the same time we reduced 25 ships in our inventory, our personnel costs have spiked. That has been a burden in our ability to balance our investments.

DOD's compensation reform proposals would generate savings to the Navy of \$123 million in 2015 and \$3.1 billion over the FYDP. We would intend to reinvest any and all of these savings into these sailor quality-of-service enhancements and that includes increasing sea pay and critical skills incentive pay to assure retention, improving 30 barracks, training buildings, morale welfare and recreation and fitness centers, constructing barracks, fitness centers, and trainers, providing schools and travel for about 7,500 sailors, purchasing tactical trainers and simulators, purchasing spare parts, improved tools, and providing more maintenance opportunities. All of these reinvestments would address the disatisfiers that I mentioned, our sailors' quality of their service. They are designed to help sailors get their jobs done effectively and safely while addressing our critical man, train, and equip challenges.

If Congress denies authority for all the compensation savings, however, Navy would be forced to back out of these \$3 billion sailor quality-of-life improvements, and we would also face an additional \$4 billion cost resulting from pay raises reverting to the ECI. That would compel us to reduce readiness, shipbuilding, and aircraft procurement even further. We cannot afford the equivalent of another \$7 billion bill. Our Navy would be less ready, less modern, and less able to execute the missions outlined in our Defense Strategic Guidance (DSG) and the Quadrennial Defense Review (QDR).

Mr. Chairman, this is a tough decision, but it is also an opportunity. Not seizing the initiative now means billions of dollars of additional costs on other programs that we can ill afford. Given our current situation, I think it is necessary to better balance our sailors' needs to ensure our Navy remains forward and, more importantly, ready where it matters when it matters.

I look forward to your questions.

Chairman LEVIN. Admiral, thank you so much.

General Welsh?

**STATEMENT OF GEN. MARK A. WELSH III, USAF,
CHIEF OF STAFF OF THE AIR FORCE**

General WELSH. Thank you, Mr. Chairman, Ranking Member Inhofe, and members of the committee. It is an honor to be here, especially with the members of this panel.

Mr. Chairman, might I add from all the men and women of our Air Force thank you for your distinguished service to this country.

Chairman LEVIN. Thank you.

General WELSH. You are a statesman, sir, and you have the respect and admiration of everybody on this panel.

Chairman LEVIN. Thank you.

General WELSH. For the past 23 years, U.S. airmen have maintained an extremely high operations tempo deploying routinely alongside their joint partners to the Middle East, nonstop since Operation Desert Storm ended in 1991, and they performed spectacularly well. I believe they have earned every penny they have made. You have been remarkably supportive in increasing their pay and benefits over time.

But today we are in a precarious position. Per capita costs for an airman have grown over 40 percent since 2000. Last year, our readiness levels reached an all-time low. As we struggle to recover, we do not have enough units ready to respond immediately to a major contingency, and we are not always able to provide fully mission-ready units to meet our combatant commanders' routine rotational requirements.

Our modernization forecasts are also bleak. Roughly 20 percent of our aircraft were built in the 1950s and 1960s. Over half of the others were built more than 25 years ago. Now, due to sequestration, we have cut about 50 percent of our currently planned modernization programs.

We cannot ignore the fact that the law, as currently written, returns us to sequester-level funding in fiscal year 2016.

This has forced us into some very difficult decisions. Pay and compensation reform is one of those very tough decisions. No one takes this lightly, but we feel it is necessary to at least try and create some savings. If we are not willing to make some tough calls, our Air Force will be neither ready to fight today nor viable against the threats of tomorrow.

My most sacred obligation as Chief of Staff of the Air Force to my airmen is that when we send them to do difficult jobs in dangerous places, that they are prepared to succeed and to return home safely. Although slowing the rate of pay increases, gradually reducing Basic Allowance for Housing (BAH) rates relative to the market, reforming TRICARE, and reducing commissary subsidies will certainly hurt, what my secretary and I owe the Nation, the joint team, and our airmen more than anything else are the training and tools necessary to fight and win and survive.

If the proposed compensation reforms are rejected, the Air Force will be forced to cut \$8.1 billion from readiness, modernization, and infrastructure accounts over the next 5 years. We will take significant cuts to flying hours and weapon system sustainment accounts, reduce precision munitions buys, and lower funding for training ranges, digging our readiness hole even deeper. We will likely have to cancel or delay several critical recapitalization programs. Among

those probably impacted would be the combat rescue helicopter and the T-X trainer. Abandoning the T-X program would mean that future pilots will then continue to train in the 50-year-old T-38. We will also be forced to cut spending on infrastructure beyond the \$5 billion we have already recommended to cut over this FYDP.

Of course, these cuts would be on top of the difficult recommendations we have already made, some of which the Chairman mentioned this morning, lowering our end strength by nearly 17,000 airmen next year, divesting the entire A-10 and U-2 fleets, and if sequester-level funding returns, divesting the KC-10 fleet as well.

None of these options are good ones, but we are simply out of good options. It is time for courageous leadership. We simply cannot continue to defer every tough decision in the near term at the expense of military readiness and capability over time. We need your help.

Chairman LEVIN. Thank you very much, General.
General Amos?

**STATEMENT OF GEN. JAMES F. AMOS, USMC,
COMMANDANT OF THE MARINE CORPS**

General AMOS. Chairman Levin, Ranking Member Inhofe, and members of the committee, the current period of fiscal austerity has exacerbated an imbalance across the Marine Corps' budget. I nor my fellow Service Chiefs and, more importantly, the men and women who wear our Service's cloth, those who have served our Nation so faithfully did not set the conditions for the fiscal calamity that we find ourselves in.

As Service Chiefs, we are obliged to live within the budget and the laws passed by Congress. Senators, none of us like where we find ourselves today. We have spent a greater part of a year restructuring each of our Services under the cold reality of a fully sequestered budget. While the Bipartisan Budget Act (BBA) provided much needed relief in 2014 and 2015, I am advised by many of your colleagues in Congress to expect to return to full sequestration in 2016 and beyond.

We have made difficult choices—all of us have—as we have attempted to build a balanced and combat-ready force. We have restructured and downsized our Services to live within our means. We have done all of this knowing full well that the world that we live in is a dangerous one, an international landscape that is simply getting more challenging as each day goes by. I see no indication there will be a peace dividend once we complete the mission in Afghanistan later this year. Mr. Chairman, we will not do less with less in the decade to come. We will do the same with less.

From a personnel perspective, our men and women have been compensated appropriately for their many sacrifices over the past decade of war. I make no apologies for that. They have deserved every penny that Congress has afforded them. They have faithfully fought our Nation's battles, all while successfully keeping the enemies of America far from our shores.

Because of my loyalty to them, there is much about today's discussion on compensation reform proposals that frankly I do not like, but I am stuck with them. I am stuck with them because I

have raided every other pot of money available to me to pay for a ready Marine Corps. As a Service Chief, I am first and foremost responsible for the defense of our Nation. That task comes before all others. It is the sole reason why America has a Marine Corps.

To accomplish this, the Marine Corps must maintain a high state of readiness. That is accomplished by having combat units that are highly skilled and highly trained. It is done by having the right equipment in the hands of warriors who may be headed into harm's way. The most important way that we can keep faith with our men and our women is to send them into combat with the best possible training and the freshest of equipment and to take care of them then when they come home.

My challenge lies in balancing readiness, manpower, and modernization, all under the umbrella of sequestration. Our goal of consistently fielding a highly trained and combat-ready crisis response force for America is pressurized by a military personnel account that has grown to 63 cents of every appropriated dollar. Balanced against readiness requirements and an anemic military construction account, the Marine Corps' modernization and investment accounts comprise a mere 8 percent, 8 cents on the dollar. This is the lowest it has been in well over a decade.

At the end of the day, I am ultimately responsible for taking care of the marines, the sailors, and our families. This includes ensuring our people are well compensated for their service while also afforded the best training and equipment available to fight and win our Nation's battles. For marines, their quality of service is as important as their quality of life. They understand that they must be prepared for uncertainty, and they must be prepared for their next mission.

Thank you for the opportunity to represent your Marine Corps and its men and women. I thank the committee for your continued support and I stand prepared to answer your questions.

Chairman LEVIN. Thank you so much, General Amos.
General Grass?

**STATEMENT OF GEN FRANK J. GRASS, ARNG,
CHIEF OF THE NATIONAL GUARD BUREAU**

General GRASS. Chairman Levin, Ranking Member Inhofe, distinguished members of the committee, it is an honor for me and Chief Brush, my senior enlisted advisor, to be here today representing the men and women of the National Guard.

The men and women of the Guard serve with distinction as a primary combat Reserve of the Army and Air Force. We are also the first military responders on site in times of domestic crisis.

I echo the concerns of the Chairman and my colleagues regarding the critical need to achieve fiscal balance across the joint force. Future fiscal challenges will dramatically constrain decision-making about the size, shape, and rolls of our military. This certainly will be the case when the Budget Control Act (BCA) funding levels return in fiscal year 2016. Therefore, it is important that we act now.

Despite the Guard accounting for only 8.4 percent of the defense compensation and benefit budget, these proposals will significantly impact operational Guard. The Guard we have today is equipped, trained, and tested over the past 12 years of combat. Modest in-

vestment keeps your Army and Air National Guard ready. But if we do not act now to rebalance military compensation, we risk future training, readiness, and modernization cuts across the joint force.

Our success is unquestionably due to our most important resource, our people. Every servicemember—Active Duty, Guard, and Reserve—deserves the best we can provide within a fiscally sound solution. I believe the proposal before you provides the level of compensation and is consistent with a ready and modern force.

Mr. Chairman, Senators, the National Guard has been and will remain always ready, always there.

Thank you and I look forward to your questions.

Chairman LEVIN. Thank you so much, General.

I think we have a good turnout here. We also have a vote at 11 a.m. One vote, I believe. Let us start with a 6-minute first round.

A number of you have mentioned the impacts of these budget caps and the impacts of sequestration. These are legislatively required, but we need to do something about them. I can assure you and members that we will have an opportunity to do something about the looming sequestration for the next fiscal year. I hope we take that opportunity. In the meantime, as you all put very well and very clearly, we have to live with the current year's budget caps, and that is what you are trying to help us do with your recommendations.

By the way, I believe, Admiral, you mentioned something about generics in our commissaries. We are going to check that one out. We do not think that the law requires it. We think that the commissaries have to be competitive, and so we are going to try to find the origin of that additional cost to our men and women in uniform.

We have a budget in front of us which must meet the caps in law. We have no choice. Again, if we do not adopt these particular reforms or some of them, we are going to have to make up for it with reductions somewhere else, and the somewhere else has taken a bit hit already, as you have pointed out, our readiness, our modernization. We have the responsibility of being law-abiding and we have the responsibility to the security of this country. We are going to do the very best that we can to accomplish both goals.

Chairman Dempsey, you have mentioned what the impact would be if we delayed these kind of changes. Can you be a little more specific? You said it would be a 2-year delay, for instance, if we waited for the final report of the MCRMC. Why would that be a 2-year impact? Be a little more detailed as to why you believe, as you have testified, that you have sufficient information now to make these recommendations even though when it comes to the retirement issues, you believe that we can delay any changes in that until the MCRMC reports.

General DEMPSEY. We believe it will be a 2-year delay because the commission will not report out until February 2015, and that is inside of our decision cycle for the submission of the budget. Waiting until February seems to us to make it clear we would actually have to move along with 2 years at our current state and prevent us from making the changes that we know we need to make right now.

Chairman LEVIN. In terms of your preparation and recommendation, it would be a 2-year delay, but from the congressional perspective, we would have time in the next fiscal year, if we get those recommendations in February, to take those recommendations into account. Is that correct?

General DEMPSEY. It seems to me that is correct. I know less about your process than I do about our own, and preparing the budget to justification book level of detail is a pretty remarkable enterprise every year. By the way, for the past few years, we have had to prepare budgets against alternative futures. I would be surprised if you could act that quickly on a recommendation that came to you in February.

But more importantly, to the second part of your question, we have spent the better part of a year analyzing direct and indirect compensation with the team that you see here represented here today and our programmers. We believe that we can articulate what the impact would be at various grade levels, an E-5, an O-5, both what it would do to them today and what it would do to them across the course of a career. We have all the information we need, and we have actually provided it. We are ready to move on it because we need that \$18 billion.

Chairman LEVIN. You have taken steps, you have assured us, to consult with others in making these recommendations, including your senior enlisted personnel.

General DEMPSEY. We have, sir.

Chairman LEVIN. I would just say this that they are all sitting here behind you, I believe you have told us, and we again give special thanks for their service as well. I would just invite them, any of them, to personally contact me if in fact they do not agree with any or all of these cuts. It is very difficult for us to ask them here today or to put them on the spot generally. But it is important that we hear from them. I would assure them that I would keep the privacy of their remarks, and I would assure them to the best of my ability in guaranteeing that privacy and anonymity, share them with my colleagues to the best I could. I would welcome any personally delivered comments from those senior enlisted personnel to me.

General DEMPSEY. Sir, if I could. They did testify before the Subcommittee on Personnel. I will also attest to the fact that there is not a bashful one among them, and you do not have to ask for their views. They will provide them and they are free to do so.

Chairman LEVIN. We welcome that and I am sure our Subcommittee on Personnel would also welcome any privately delivered comments that might differ from their testimony or from your testimony. Thank you very much.

Senator Inhofe.

Senator INHOFE. Thank you, Mr. Chairman.

Not a bashful one among them. Let us see how bashful they are here.

First of all, a lot of us have seen this coming, and I know we do not talk about it very much, but when we see money that otherwise should have gone into our military, into our defense, we see the construction of the biofuel refineries, \$160 million. We see the Navy purchased the green fuel at \$26 a gallon, which could be pur-

chased on the market for \$3 a gallon. The climate change initiatives have gone up now \$120 billion since President Obama has been in office. I commented the other day, General Welsh, that for the \$120 billion we could buy 1,400 new F-35s. Food stamps, \$42 billion additional every year.

I would like to ask you in this climate—and I am going to submit for the record, because there is not time to read them all, all of the quotes from everyone, up to and including Secretary Hagel, about the dilemma that we are in and the fiscal situation that we are in right now.

[The information referred to follows:]

QUOTES ON MILITARY READINESS AND ABILITY TO EXECUTE STRATEGIC DEFENSE GUIDANCE

Secretary Hagel said 2 weeks ago, “American dominance on the seas, in the skies, and in space can no longer be taken for granted.”

I believe that under sequestration, we will have to assume so much risk that it is immoral.

- General Dempsey agreed when he told the Senate Armed Services Committee, we are putting our military on a path where the “force is so degraded and so unready” that it would be “immoral to use the force.”
- Admiral Winnefeld in January 2013, stated that “there could be for the first time in my career instances where we may be asked to respond to a crisis and we will have to say that we cannot.”
- General Amos agrees with me on increased risk, “We will have fewer forces arriving less-trained, arriving later to the fight ... This is a formula for more American casualties.”
- The Department of Defense’s Chief of Technology, Under Secretary Frank Kendall, said on 3 January: “We’re cutting our budget substantially while some of the people we worry about are going in the opposite direction. We’ve had 20 years since the end of the cold war [and sort] of a presumption in the United States that we are technologically superior militarily. I don’t think that that’s a safe assumption.”

Each of the Service Chiefs agree. Here’s what they said about the ability to execute the current Strategic Defense Guidance:

- Army Chief of Staff General Odiemo said that under sequestration: “Such reductions will not allow us to execute the 2012 Defense Strategic Guidance, and will make it very difficult to conduct even one sustained major combat operation.”
- Chief of Naval Operations Admiral Greenert said “[Sequestration] will preclude our ability to execute the 2012 Defense Strategic Guidance both in the near term and the long term.”
- Marine Corps Commandant General Amos said: “To meet the requirements of the Defense Strategic Guidance, we need a Marine Corps of 186,800 ...” but a force of 174,000 marines quite simply is the largest force that we can afford [under sequestration] ...”

General Dempsey on Quadrennial Defense Review and Budget: “The smaller and less capable military outlined in the QDR makes meeting these obligations more difficult,” Dempsey said. “Most of our platforms and equipment will be older, and our advantages in some domains will have eroded. Our loss of depth across the force could reduce our ability to intimidate opponents from escalating conflicts.” He added, “Moreover, many of our most capable allies will lose key capabilities. The situation will be exacerbated given our current readiness concerns, which will worsen over the next 3 or 4 years.”

Under Secretary Jessica Wright Statements on Readiness:

- “The Secretary of Defense has been very clear that sequestration funding limits imposed by the BCA of 2011 will yield a force that is too small, and not ready enough to meet the Nation’s security objectives.”
- “The budget does not provide adequate funding for modernization, increased training, and facility sustainment needed to resolve the Department’s readiness challenges.”

Senator INHOFE. Could each one of you briefly describe something in concrete terms that this fiscal climate means in terms of what your Service will not be able to do to adequately train men or women, to deploy them, and bring them safely home? I would like to have some specifics. If you cannot do it now, I would like to get that for the record. Would any of you, General Odierno, have any specific thing that you would want to do that you are going to have to sacrifice doing in terms of training?

General ODIERNO. Senator, thank you.

Beginning first in 2015, we have to reduce home station training. It all affects the collective level of training, which is the most important for our forces, and it is the ability to synchronize and integrate air, ground, and the many different types of maneuver that we have to do in case we have to respond, whether it be in Korea, whether it be in the Middle East, whether it be in Europe. We have had to cut back on this training. What that means is we have less capability and lower readiness levels than we would like to have in case we are asked to deploy.

This will continue to exacerbate itself in 2016 and 2017 and 2018 until we get our end strength down to a level that would enable us to balance, and that will not happen until about fiscal year 2020.

If we do not get these, we now add another \$12 billion bill that I have to find. That means we might even have to take more end strength out. I have already testified to the fact that I do not believe we have enough end strength now if we go to sequestration in order to meet our national security needs. This will further exacerbate this problem.

Senator INHOFE. General Welsh, can you think of anything specific in terms of grounding of units?

General WELSH. Senator, last year was a pretty good example of what sequester-level funding will do to our Air Force. We grounded about a third of our combat squadrons. We cancelled Red Flag exercises, both U.S. Red Flags and coalition Red Flags, which is the full spectrum, high end part of training for the United States Air Force. It is what separates us from other air forces. It is where we integrate with the other Services and with ground forces and with our allies. We cut weapon school classes where we develop our Ph.D. warfighters. All the things that take us from doing low intensity work to being able to fight a full spectrum fight were affected dramatically.

Senator INHOFE. Yes. I think we saw after the grounding of the squadrons that the cost of getting them back to a state of readiness, as well as the equipment that was grounded with them, exceeds the amount that would have been saved at that time. Is that accurate?

General WELSH. Senator, that is accurate.

Senator INHOFE. Anybody else? Yes, sir.

Admiral GREENERT. Senator, you were down in Norfolk. You talked to our people, and they said these long deployments are killing us.

Senator INHOFE. Yes.

Admiral GREENERT. The problem is if somebody is deployed and we need another carrier to deploy due to a contingency in Syria or

the issues in Europe, those that are out there now have to stand that watch because we do not have the response force for a contingency that we would normally have. The folks are not trained up to do that. It takes longer to train them up to deploy. We are deploying just on time. We need a better contingency force to deal with the contingencies today.

Senator INHOFE. Okay, I appreciate that.

General Amos, anything specific that comes to your mind that you cannot do now in terms of properly preparing these kids?

General AMOS. Senator, we have made decisions to move money into training and readiness of our units. Those units are at a fairly high state of readiness and will be so for the next 2 years. To do that, though, we pulled money out of all our other accounts, to include procurement. That is where we are feeling the pinch right now. We have \$983 million total to reset the Marine Corps and modernize the Marine Corps for this year. That is less than 4 percent of our entire budget. We are feeling it in the modernization, Senator, because we have paid the bill for readiness and training out of that account.

Senator INHOFE. Yes, and I bring this up because I know this is a hearing on compensation, but if you change that, that does not happen in a vacuum and it cannot be at the expense of our training and, as you say, our modernization.

My time is about expired, but in terms of our combat readiness codes, C-1, C-2, C-3, and C-4, because we have already experienced some losses in terms of our readiness capability, how are we doing now on those that we were deploying, General Odierno? They should be C-1 when they are deployed. Is that correct?

General ODIERNO. That is correct.

We made progress in 2014 because of the BBA. We are beginning to increase the readiness of our brigade combat teams, and we have added about four to five more brigade combat teams.

Senator INHOFE. Are they all either C-1 or C-2?

General ODIERNO. They are C-1 or C-2. The problem is in 2015 and 2016, that goes down again because of the sequestration. If we lose what we have asked for in the compensation savings, that will bring the readiness down further. So it will impact readiness in the out-years significantly.

Senator INHOFE. Readiness, risk, lives. Right?

General ODIERNO. That is right.

Senator INHOFE. Thank you, Mr. Chairman.

Chairman LEVIN. Thank you, Senator Inhofe.

Senator Reed.

Senator REED. Thank you very much, Mr. Chairman.

Thank you, gentlemen.

General Odierno, you are, I think for the first time in decades, actually involuntarily separating personnel this year, and that will continue if some of these savings are not realized. Is that a fair judgment?

General ODIERNO. That is correct, Senator. We are involuntarily separating captains, majors, lieutenant colonels, colonels, and also non-commissioned officers. It is also the first year that people who are eligible to re-enlist will not be able to re-enlist because of the reduction in the size of the Army.

Senator REED. There are a lot of issues at play here, but we are already seeing the effects of these constrained budgets in terms of the opportunities for people who are competent, capable in their ability to serve until at least retirement and to retire.

General ODIERNO. That is correct, Senator.

Senator REED. Some of these savings, if they are realized, will help alleviate that pressure. It will not end it, but it will help alleviate that pressure.

General ODIERNO. It will not end it, but it will help alleviate it. If we do not get it, it will increase.

Senator REED. Accelerate.

General ODIERNO. Right.

Senator REED. Admiral Greenert, we talked about the savings. Let us assume for the moment you get some savings. How would you apply them this year? In what specific programs could we see with general savings applications?

Admiral GREENERT. Getting those savings the first year, it would be career sea pay and it would be special pays and allowances, incentive pays. It would be increases to our base operations. Our ports shut down. They run 9 a.m. to 5 p.m. We want to keep them open so when ships complete training, they can come home Friday not go anchor out and then come in Saturday during daylight hours. That is 2015. That is about \$123 million right there.

In 2016, it is again starting to repair 30 barracks, buy trainers and simulators for small arms for our submarine trainers, for our surface trainers to put money in to get people to training, that is, travel money and trainers. That is about 7,500 sailors that we just have backed up. This is the quality of their service, Senator, as I was saying. This is what they are asking for. Spare parts.

Senator REED. One of the points, I think, in Senator Inhofe's question to General Welsh was it is a more efficient use of resources too. Rather than keeping a ship just standing idle off port, that ship could be brought in, the crews could see their family.

Admiral GREENERT. Yes, sir. Obviously, they will be happier. They are back home and their families waiting for them rather than just hanging out overnight waiting for the port to open.

Senator REED. This is a very difficult issue. I do not have to tell anyone around this table or at the witness table. There is one view and I think a reasonable view that there is no way you can pay these men, women, and their families for what they do. There is no benefit. There is nothing. But at some point, we have to make very difficult judgments about pay, allowances, et cetera.

But one of the other impressions I have is that training and having the best equipment is really key to the morale and to the sense of service. Ironically, we could be increasing compensation, but with poor training, and poor equipment, et cetera, the morale and the satisfaction and the sense of pride of the service would deteriorate. Is that unreasonable, General Dempsey?

General DEMPSEY. No. It is absolutely correct, sir. I have said before and I believe it today as well that today's readiness problem is tomorrow's retention problem. If you came into this military to be a man or woman of action and go to sea and fly and train and you are sitting around watching your equipment or just simply

maintaining it with no possibility of training on it, you are not going to stick around very long.

Senator REED. My experience is limited, but it was that good training was one of the key factors in any unit. If you did not have it, the other was important but not as critical.

Let me ask a question, General Dempsey, about the commissaries. Essentially your testimony is that you would like to get some efficiencies out of the system and that they can generate these efficiencies. If that is not the case, then they are going to have to curtail some of their operations. Have you thought about criteria for curtailment?

General DEMPSEY. We have, sir. I will tell you that commissaries has been the most difficult issue to wrap our arms around because it is very difficult to understand the functioning of the commissary and the effect that a reduction in the subsidy will have until you make the decision to do it. That is why we are supportive of taking this first step this year, \$200 million. As the senior enlisted, when they do talk to you, Senator, will tell you, let us see what happens. Let us see how much efficiency we can wring out of it in order to gain some savings. But left unaddressed, we will be providing a \$1.4 billion subsidy in perpetuity, and that just does not seem to be a reasonable course of action.

Senator REED. So your first step—and the number is about \$200 million—would be to essentially charge the system with coming up with efficiencies either through operation, techniques, different purchasing approaches, different managerial approaches that would save the money. There is no thought in this first year of closing any commissary. Is that fair?

General DEMPSEY. Yes. Let me ask the Vice Chief to comment, sir, because he has actually done most of the heavy lifting on this.

Admiral WINNEFELD. I will be very quick. We have not directed any commissaries to close. That is not part of the plan. What would happen, as you correctly point out, look for efficiencies first. Whatever they cannot wring out of efficiencies would be a price increase. You might go from the 30 percent claimed advantage right now—if all \$200 million in the first year came out, it looks like that would go to 26 percent. We think we can do better than that. Then you look at the competitiveness of the commissary in the market in which it exists, and most of them, I think, at 26 percent savings will remain very competitive. If not, then there are probably situations where you might close one or two, but that is not what we have specified. It is, I think, a lot gentler than it looks.

Senator REED. Thank you very much.

Thank you, Mr. Chairman.

Chairman LEVIN. Thank you, Senator Reed.

Senator McCain.

Senator MCCAIN. Thank you, Mr. Chairman.

I thank the witnesses.

General Amos, with all of these proposals that we are examining today, it seems to me from previous testimony that the biggest problem really is sequestration. Would you agree?

General AMOS. Yes, sir, I would.

Senator MCCAIN. By far?

General AMOS. By far.

Senator MCCAIN. General Odierno?

General ODIERNO. I agree, Senator.

Senator MCCAIN. Unless Congress and the President act together, all of these savings will pale in comparison to the challenge you will face as a resumption of sequestration. Would you agree?

General ODIERNO. I think we have said before that under sequestration, we cannot meet the DSG. We have many concerns. It also affects compensation and other things we want to accomplish within our budget.

Senator MCCAIN. By the way, on commissaries, I have a thought. Why not have people compete to provide those services? Why not just open it up for competition? No subsidy. Just see who wants to provide the best services. That might be a thought you might consider.

General Welsh, should we be purchasing rockets for our Evolved Expendable Launch Vehicle (EELV) program from Russia, including the fact that the person in charge of that aspect of Russia's defense has been sanctioned by the United States of America and a Federal judge has ruled that that is a process that should not be pursued?

General WELSH. Senator, we already have purchased some of those rockets. We have a backlog. We certainly are not purchasing them currently as we work through—

Senator MCCAIN. You have a backlog?

General WELSH. Sir, I am sorry. We have an inventory that will cover the next 2 years of planned launches, if we are allowed to use them.

Senator MCCAIN. Do you think you should continue to purchase them?

General WELSH. Sir, it is clear that right now we may not continue to purchase—

Senator MCCAIN. I am asking your opinion whether you think we should continue to purchase them.

General WELSH. Sir, I think the best answer for the United States of America is to have the option of an organic booster.

Senator MCCAIN. Thank you.

General Grass, do you believe that the movement of Apaches out of the Guard is a wise move?

General GRASS. Senator, the adjutants general submitted a proposal to me that I have submitted to the Army about that. We actually agree with two-thirds of the move of the trainer and also moving the Kiowa Warriors, and we submitted a proposal to keep a strategic depth of Apaches in the Guard.

Senator MCCAIN. It is your view that the Apaches should remain in the Guard.

General GRASS. A certain amount, sir.

Senator MCCAIN. General Odierno, you mentioned a couple times in previous testimony you thought that the A-10 was by far the most superior close air support (CAS) weapon that we have.

General ODIERNO. Senator, what I said is our soldiers have the most confidence in the A-10. They are used to working with it. I also said that the Air Force is providing CAS with other platforms, which has also been successful.

Senator MCCAIN. Does it give you comfort to know that the B-1 is one of the replacement ideas that the Air Force has put forward presently in Afghanistan? That would mean a 6-hour flight from its base in a different country as opposed to a minimum of 1 hour, and those weapons are delivered from very high altitude.

General ODIERNO. Senator, first off, I have confidence that the Air Force understands the immediacy of the necessity of CAS. I believe the systems they have in place will provide us that immediacy.

Again, as we use different platforms, we will work through with the Air Force how we use those and how they are best effective in supporting our ground forces as we move forward.

Senator MCCAIN. I find it curious that you come over here with all the necessity for cost savings and the A-10 cost per flying is \$17,000 per flying hour and the B-1, \$54,000 per flying hour. As I said before, General Welsh, I challenge you to find an Army or Marine Corps commander who has functioned in the field and needed CAS that would feel comfortable with the B-1 replacing the A-10. I will look forward to you providing me with those individuals. The fact is that the B-1 is much more expensive. It flies at high altitude and it attacks static targets. That does not fulfill the mission of CAS as I know it. I would be glad to hear your response.

General WELSH. Senator, the B-1 also provides about 5 hours times on station, and up to 32 joint direct attack munitions.

Senator MCCAIN. At \$54,000 per flying hour.

General WELSH. Yes, sir, and in some scenarios where the ground forces are not in direct contact with the enemy, it is an exceptionally good CAS platform. I would be happy to provide people who will tell you that.

It is also not the planned replacement for the A-10, sir. The primary airplane doing CAS to take the place of the A-10 will be the F-16. It has already done more CAS in Afghanistan than the A-10 has, and it will work with other aircraft, if the scenario allows it, to provide the best possible CAS for our troops on the ground. We are absolutely committed to it. We have been and we will remain so.

Senator MCCAIN. Well, you tried to get rid of it before, General, and did not succeed. We will try to see that you do not succeed again.

Finally, Mr. Chairman, my time has expired. But I gave a speech again yesterday on the floor of the Senate. We have now spent 57 percent of the \$300 billion that was spent in fiscal year 2013 on non-competitive contracts, 80 programs, according to the Government Accountability Office, with \$500 billion in cost overruns. The EELV. The Air Force Expeditionary Combat Support System over \$1 billion which as of now has no result. The Expeditionary Fighting Vehicle, \$3 billion. Former Marine One helicopter, \$3.2 billion. The acquisition system in DOD is broken. It still has not been fixed, and when we have as much as a \$3 billion cost overrun for a single aircraft carrier, the American taxpayers will not sustain it.

I thank you, Mr. Chairman.

Chairman LEVIN. Thank you, Senator McCain.
Senator Blumenthal.

Senator BLUMENTHAL. Thank you, Mr. Chairman.

Thank you all for your service, your extraordinary dedication and contribution to our Nation. I join Chairman Levin in saying to you and the men and women who serve under you that we owe you a tremendous debt of gratitude both in peace and war.

General Dempsey, I had not intended to ask this question, but I am encouraged to do so by one of Senator McCain's questions. On the purchase of Russian helicopters for the Afghan military, what would it take to convince you that we should stop those purchases today since the money that we are spending on them goes to Rosoboronexport, the Russian arms agency that, in turn, is fueling and financing Assad in Syria and also now the troops that are on the border with Ukraine? What would it take to convince you that we should stop those purchases right away?

General DEMPSEY. An alternative, Senator. I just came back from Afghanistan on Saturday, and the Afghan Security Forces did an absolutely remarkable job of managing their elections. They peaked for the big events, but they are not ready to sustain themselves over the long term. We have to get them a lift capability and an attack capability, and currently there is no alternative.

Now, we are looking inside DOD to see if we can find an alternative supply chain and repair parts. Believe me.

By the way, the other thing that it would take is if a sanction were to be placed against them, that would be the law and we would have to react to that.

Senator BLUMENTHAL. A sanction against the Russian arms agency.

General DEMPSEY. That is right. A sector sanction.

But at this point, we do not have an alternative, though we continue to seek one.

Senator BLUMENTHAL. Is there a military reason that we should not impose sanctions on Rosoboronexport, the Russian export agency?

General DEMPSEY. The military reason is what I just expressed, which is a concern that we would leave the Afghan Security Forces without an air component for some time.

Senator BLUMENTHAL. But can we not provide those components from another source and the training to fly American helicopters?

General DEMPSEY. We have talked about the American helicopter, Senator. That would take a very long time, much longer than it does with the Mi-17. But we are looking at alternative sources of supply and repair parts.

Senator BLUMENTHAL. I do not want to dwell too long on this issue, and you have been very gracious in talking to me about it on previous occasions, both on and off the record. I appreciate your attention to it. But I would like to follow up further with it, and I appreciate your responding.

A question for you, General Dempsey, and perhaps to General Odierno and General Amos. One of the biggest factors as a cause of suicide is financial stress, and the rates of suicide I know have been of great concern to every member of this panel. Do you anticipate that any of these cuts or changes in compensation will impose greater stress? Obviously, that is an emotional term. It may not be objectively a cut in the standard of living, but the idea of stress

comes with reductions in compensation and the threat of additional reductions in compensation.

I ask this question very cognizant of the fact that many of our best and brightest who are fortunately serving now go into the military without the idea that compensation is going to be the key to their future. As the father of two who have served, who are serving, I am well aware that the training and the challenge and the mission are the primary motivations for any young man or woman who goes into the military. But in terms of retention and continued service, are we not creating additional financial stress which, in turn, aggravates suicide rates and could have other down sides physically and emotionally?

General DEMPSEY. I will let the Service Chiefs talk about the many programs in place to help service men and women deal both with stress and, in particular, with their financial well-being.

Personally, Senator, my belief is that the uncertainty of all of this is a greater cause of stress than the slowing of growth that we have prepared. As I have gone around into townhall meetings, that echoes. That resonates. They are more concerned because they do not know what the future will be in terms of our ability to raise and maintain a force over time.

But let me ask if any of the Service Chiefs want to talk specifically about this.

General ODIERNO. If I could, Senator, I want to really piggyback on what the Chairman just said. Their concern is am I going to have a job? Am I still going to be part of the best Army? Am I going to have the best equipment? Am I going to be ready when you ask me to deploy somewhere around the world? Certainly they are concerned about their compensation. But in reality, we are not reducing their compensation. We are reducing the rate of growth. Nobody will see a cut in their paycheck. Their paychecks will continue to increase. In my opinion, that is the bigger issue, sir.

Senator BLUMENTHAL. Can you talk perhaps, General Dempsey or General Odierno, about the Study to Assess Risk and Resilience in Servicemembers (STARRS) program, in terms of addressing the suicide issues in the Army?

General ODIERNO. I can, Senator.

STARRS enters its fifth year of the program. To date, more than 100,000 soldiers have voluntarily participated. This is allowing us to gain new data that is enabling us to see where the stresses are, what are causing soldiers to think about suicide, to have suicide ideation, in some cases with those who have actually attempted suicide. It is really giving us high quality information that we are able to put back in our program. We are continuing to fund that program because the information we are getting is allowing us then to pass that information to the commanders and allowing them to better help and understand what the stressors are on our soldiers. We are continuing to invest in that program as we move forward.

Senator BLUMENTHAL. Thank you.

Thank you very much, Mr. Chairman.

Chairman LEVIN. Thank you, Senator Blumenthal.

Senator FISCHER.

Senator FISCHER. Thank you, Mr. Chairman.

General Dempsey, some have suggested that maybe there are other areas in the budget that we can cut. I guess I would like you to speak to that. I know that research and procurement funds have been cut, but do you believe that there are any additional savings in those areas or other areas that can offset these compensation changes? How do you weigh that?

General DEMPSEY. Yes, Senator, not only are there other areas that could be cut, we have actually cut nearly every area. In fact, I would actually prefer to allow some of the Service Chiefs to talk about how they have tried to balance the reductions against pay, compensation, health care, modernization, training, infrastructure. There are five or six or seven places you can find money in a budget. They have looked. There is nothing left under the mattress. We have to do this in a balanced way.

Anybody want to add to that?

Senator FISCHER. General Amos?

General AMOS. Senator, in my Service, as I testified in my opening statement, 63 cents on every dollar goes to manpower. We are the highest of all. By the way, that does not mean the marines cost more. We actually cost less because we are a younger Service. But it is a percentage of budget and a percentage of top line. We are at 63 percent.

That leaves 27 percent available for readiness. You want me to be in a high state of readiness so we can deploy today, and we do that often. 27 cents of every dollar applies to that.

Then really all that is left over, for the most part, is about 8 percent, which is equipment, modernization. You mentioned research and development (R&D). 4 percent is R&D and 4 percent is modernization. When you think about our Service, we have been at war for 12 to 13 years, and 4 cents on every dollar is going to modernize the Marine Corps after 12 or 13 years of war.

General Dempsey's point is that we have looked in a lot of places. For me, my manpower account is 63 cents on every dollar. 64 percent of that is pay, health care, and BAH. If I am going to make a change, even if it is a modest change, for me I get a pretty high return on the money considering the amount of money I am paying for modernization.

General ODIERNO. Senator, if I could just add to that.

Currently we are only funding our installations at 50 percent of what they should be funded at. We do not have a Base Realignment and Closure (BRAC) round. We are going to have to continue to sustain the number of installations that we have. We cannot fund our installations fully. That is already the case. We are cutting the Army by 34 percent in the Active component. We are cutting the Army by potentially 20 percent in the National Guard, 10 percent U.S. Army Reserve. Our research, development, and acquisition account has been cut by 39 percent. We have slowed down every one of our programs, which is causing cost overruns because we have now slowed down how long it is taking us to procure aircraft. What that means is each aircraft costs more because we have slowed it down and we have reduced the amount of aircraft we are buying. We are not only past efficiencies. We are becoming more inefficient because of how we are trying to deal with the problems that we are dealing with. Our military construction (MILCON) is

at the lowest level ever in the Army right now. We have taken as many efficiencies as we possibly can to pay a \$170 billion bill that we still have to pay over the next several years.

Senator FISCHER. You have strategic requirements that you have to meet. So just how far are you going to fall short of those if the sequester continues?

General ODIERNO. Until we can get the end strength out, which is going to take us about 3 or 4 more years, we are going to continue to be out of balance. We are taking a portion of the force, a very small portion of the force, and making them as ready as possible to meet our operational commitments. The problem is the rest of the force is paying a significant price in readiness. What that means is as we get unknown contingencies, we are not going to be able to respond with the readiness and capabilities that we are used to responding. That is my real concern, Senator.

Senator FISCHER. We have talked a little bit about the MCRMC that is out there and the recommendations that they may come up with. I guess I will start with you, General Dempsey. Are any of you concerned about the changes that you are proposing here that you are contemplating for the budget? What happens if the MCRMC rejects those and goes in another direction? How are you going to address that?

General DEMPSEY. The commission's work is on changes to structure of pay, compensation, and health care and retirement, which is a longer look at this than we are proposing right now. I think our suggestions are going to harmonize quite well, frankly, with what they are doing.

Senator FISCHER. What would you see for savings if the pay is going to be capped at an increase of 1 percent down the line?

General DEMPSEY. I am not sure I understand the question, Senator.

Senator FISCHER. If you are looking at savings on pay in the budget that you are proposing, you are talking about a 1 percent this year or fiscal year 2015 instead of the 1.8 percent?

General DEMPSEY. Right.

Senator FISCHER. There will be savings there. Do you anticipate that that will continue into the future and how far into the future? Would you cap that?

General DEMPSEY. I think that is one of the things that we would expect to get some advice from from the commission because that is a structural issue. But the savings on that 1 percent vice 1.8 is about \$3.8 billion over the FYDP, and that is money we really need.

Senator FISCHER. I see my time is up. Thank you.

Chairman LEVIN. Thank you, Senator Fischer.

Senator Donnelly.

Senator DONNELLY. Thank you, Mr. Chairman, and thank you for all your service.

I want to focus for just a minute on mental health assistance. I appreciate all the efforts of all the Services in trying to get this right.

General Grass, the National Guard is limited in its ability to provide medical treatment to its members. You cannot access the Defense Health Program's funding and have to use operations and

maintenance funds. Does this impact the quality of mental health support that you can provide for your members?

General GRASS. Senator, we have 167 trained mental health clinicians across the States. Those are primarily in the State headquarters as well as in the flying wings. Thanks to Congress, we got a \$10 million plus-up for this year. We have been able to bring on additional clinicians that we can put in the high risk areas. That has been very helpful.

My concern is probably more looking to the future and especially as we bring men and women off of Active Duty into the Guard that maybe have had multiple deployments and they are coming back to their hometown and will we be able to expand and provide the health care they need, as well as our own men and women. In the past, we have had a 50/50 split on prior service and non-prior. During the war, that actually went down to a 20 percent prior service and 80 percent non-prior. We have to tackle this issue.

Senator DONNELLY. We continue to need to do a better job of assessing the mental well-being of our servicemembers every year for every servicemember regardless of whether deployed or not. This goes for Active Duty, Guard, and Reserve.

General Dempsey, I was wondering your views on conducting annual mental health examinations or screenings for the Active Duty and Reserve members.

General DEMPSEY. We have programs in place pre-deployment where we screen them. Let me ask the Service Chiefs if you extend those into routine presence deployments. John?

Admiral GREENERT. We have pre-deployment, as the Chairman has said, and then post-deployment, we have a 30-day, 90-day, and 6-month checks which include—I do not know that I could call it a mental health screening but delves into issues of mental health of our individuals. When you take that across a spectrum—and folks deploy every 2 years or so—that is quite a few checks.

General ODIERNO. We conduct assessment prior. Then we do one during deployment, and then we do one after the deployment. But then we are now making a part of the routine sustainment, as we do physicals and other things, behavioral health is becoming a part of that.

There are two things with the National Guard, if I could. We have increased the tele-behavioral health. We have to continue to invest in that because that then allows them from external places to get behavioral health.

The other thing is the TRICARE Reserve Select, which is a low-cost premium that allows them to get care. We are subsidizing that. We subsidize that by 72 percent. That is an investment that we have made to help them to get care outside of the military health structure which should assist our Guard and our Reserve in order to get the behavioral health and other care that they need.

Senator DONNELLY. You in previous hearings here had mentioned about the possibility or the use of off-base mental health assistance as well. That seems like in certain cases that could be a very good fit.

General ODIERNO. We are trying to build a civilian military consortium of capability that allows our soldiers and their families to get the care. We are making some progress on that.

We are also working with many outside organizations on our major installations in order to have this cooperative effort because sometimes they would much rather go to someone in the civilian community than in the military structure because of their concern about stigma and other things. We are trying to open that up as much as possible as we move forward.

Senator DONNELLY. General Amos, I just wanted to ask you. You mentioned 63 cents of every dollar goes to personnel, 4 percent for modernization. With that 4 percent, how modern will that allow the Marine Corps to be in about 10 years if it continued at that rate?

General AMOS. Sir, it is part of the decision we made last summer as we were facing sequestration. We said what is good enough. So in 10 years, the Marine Corps will not be a very modern Service with regard to ground tactical vehicles. It will be modern with regard to aviation and a few other, but we will be living with legacy vehicles in the ground tactical vehicle arena.

Senator DONNELLY. This would be for all of you, and I will do it quick.

Is there an upper limit like on the personnel costs? I remember, Admiral Greenert, we were at a dinner with you where you said at some point, if things do not change, the Navy's personnel costs will be two-thirds of every dollar and it will be very difficult to run the operations of the Navy if that occurs. Is there an X crosses Y point for the different Services?

Admiral GREENERT. That was at a rate that we were on at the time, and that would notionally arrest itself. But I think what we are suggesting is to slow growth. For the Navy, we are about right now at about 25 to 35 percent. Now, if you add reservists, I am talking about sailors, reservists, and civilian personnel. We are talking about arresting it to the area we are right now.

Senator DONNELLY. Okay.

Sir?

General ODIERNO. For the Army, historically it is 42 to 45 percent. Today we are about 48 percent and growing, and that is the concern we have. As the budget comes down, it will probably grow as a bigger percentage. We are still working the numbers, but it will continue to grow if we do not watch this very carefully.

General WELSH. Senator, one of the concerns that I have is that the percentage for the Air Force has stayed the same between 2000, 2001, and today. It is roughly in the mid-30s. 30 to 35 percent of our budget is costs we pay to people. The problem with that is we have cut 50,000 airmen during that time frame. Our top line has gone up. We have cut 50,000 people and the percentage of the budget we put toward those people is exactly the same. That is the impact of the cost growth.

Senator DONNELLY. Thank you very much, Mr. Chairman.

Chairman LEVIN. Thank you, Senator Donnelly.

Senator Ayotte.

Senator AYOTTE. Thank you, Mr. Chairman.

I want to thank all of you for your leadership in the military, for your extraordinary service to our country during challenging times.

I just have a comment up front, and I want to echo the comments that Senator McCain made. This really is about sequestration. As

we look at these issues in terms of compensation and also the readiness issues and challenges that you are facing right now, it seems to me that when we look at the overall budget, taking it out of the DOD realm, 60 percent of what we are spending our Federal dollars on are on mandatory spending, entitlement programs, that if we do not get together collectively as a Congress and address the bigger picture in the budget, then those programs, by the way, go bankrupt but also it continues to squeeze out the priorities in terms of defending this Nation at a very challenging time.

Sequester, let us not forget, was set up to be something that would never happen, and yet, here we are. I think that we need to show an iota of the courage that our men and women in uniform do every day and really address the big picture problem here with sequester because we are going to continue to face this down.

As I look at it, the one thing that worries me is that when we went through the cost-of-living adjustment (COLA) discussion in the budget agreement, there seemed to be somewhat of a disconnect that there were comparisons made between civilian personnel and the sacrifices that our men and women make every day. When you are married to someone in the military and you have to move around, you cannot have the same career as someone who is on the civilian side. When you are missing those weekends, those holidays, it is not the same. You cannot make those comparisons, and we cannot lose sight that the 1 percent of this population, the men and women in uniform who go out and defend the rest of us, that the sacrifices they made are very different.

What I would like to make sure of is that we do not lose sight of that as a Nation and that we actually hopefully can get this Congress to the place where we are taking on the big-picture, hard questions that need to be taken on so that we do not diminish the best military in the world.

That is my comment upfront, and I know that many on this committee share those sentiments and really what we need to address if we want to make sure that our men and women in uniform are supported and the defense of this Nation is sound.

I want to ask, in particular, just real quick to follow up on what Senator McCain had asked General Odierno. Just so we are clear on the A-10, our men and women on the ground—do they have as much confidence in the F-16 in terms of the CAS mission as they do in the A-10?

General ODIERNO. If you go ask people on the ground, they will tell you that they believe in the A-10. They can see it. They hear it. I think a lot of times they are not aware of the F-16 as much because it is not actually visible to them. If you ask them on the ground, they are very clear that they—

Senator AYOTTE. Do you believe the F-16 is the equivalent of the A-10 on the ground in terms of re-attack times, in terms of ability to go low and slow in terms of survivability in those real close settings?

General ODIERNO. They both have very different capabilities. They both can conduct the missions, but the A-10 has certain characteristics that enable them, visual deterrence, able to see, the type of munitions. But the F-16 also has been capable of developing and delivering.

Senator AYOTTE. Let us be clear. The F-16 is not the equivalent of the A-10 when it comes to the CAS mission on the ground. Is it?

General ODIERNO. It is not the same.

Senator AYOTTE. General Amos, would you disagree with that? Is the F-16 the equivalent of the A-10 in terms of CAS on the ground?

General AMOS. Senator, I cannot comment on the F-16. I can comment on the F-18, and the marines would rather have F-18s overhead than A-10s. I will say that caveated. During Operation Iraqi Freedom-1, I had 60 F-18s, 72 Harriers, and General Mosley gave me a 100 sorties of A-10s every day. It was a nice blend. The A-10s in those days were nonprecision. I think that is taken care of now. I think they have precision systems.

Senator AYOTTE. They are precision guided now.

General AMOS. Yes, and so they have all that. That makes them the better platform.

I think it is a blend. But if you ask the marines on the ground, they would rather have their F-18s and the Harriers overhead. That does not mean they did not appreciate the hell out of the A-10s, and I know for a fact that they did.

Senator AYOTTE. I guess my question is do you think that the F-16 is the equivalent of the A-10 on CAS. Yes or no?

General AMOS. Senator, I do this for a living, and I think they are two completely different platforms with overlapping missions. Now, one is very old. The other one is not quite so old. I think what you would probably like to do is have a blend, if we could afford it. We are at a point right now where we are trying to make decisions on what we can afford and modernization.

Senator AYOTTE. Well, it seems to me when I think about what the men and women in uniform on the ground have told me when I visited Afghanistan, we should be able to afford what they believe is the best CAS platform, especially given the cost per flying hour and what we have previously invested in the A-10.

I have a question for the whole panel that I really think we need to get to the bottom of. When we add up the fiscal year 2014, fiscal year 2015 pay caps, and the proposed BAH pay reductions, the reductions in commissary savings, and the new TRICARE fee structure, the Military Officers Association of America (MOAA) has given us an estimate that an E-5's family of four would experience a loss of about \$5,000 in purchasing power annually, thinking about their overall compensation package as opposed to just pay or one area.

Do you all agree with that estimate? Have you done the analysis in terms of thinking about our junior enlisted officers and what it will mean for them in terms of these proposals on a gradation? Because I have not yet seen that. Perhaps you produced it, but I think it is important for us to see especially for thinking about the sergeants in our Army and our Marine Corps, the staff sergeants, the petty officers 2nd class, all of those who are really at the junior enlisted level who are making a lot less money. Some of them, unfortunately, in some instances I know in the past have been on—it is a shame, but have been on food stamps and other things. I think those numbers are particularly important for us to see.

General DEMPSEY. Senator, we will take it in general for the record and give you—we do have that data. The Chief of Naval Operations (CNO) actually has the specific answer to that question that you asked.

[The information referred to follows:]

We do not agree with the Military Officers Association of America's (MOAA) estimated impact of the Department's pay and compensation proposals on junior enlisted servicemembers.

- Baseline: MOAA is inconsistent in base lining each proposal. For example, MOAA depicts the total impact of the BAH and Commissary proposals, which are not fully implemented until fiscal year 2017, but only depicts the impact of slower Basic Pay raises in fiscal year 2014–2015.

- Timeframe: MOAA includes the impact of the 2014 pay raise, which was less than the employment cost index. Analysis should be bounded by the PB15 horizon (fiscal year 2015–2019).

- Assumptions: The impact to the servicemember varies based on the underlying assumptions, including: dependency status, years of service (YOS), health care usage, and shopping habits. In fact, of all the PB15 pay and compensation proposals, the commissary impact is the most sensitive to varying assumptions.

- YOS. MOAA depicts an E-5 with 10 YOS. An average E-5 has about 6 YOS.

- Family Size. MOAA depicts a family of four. The average servicemember has a family of three.

- Commissary. MOAA assumes 100 percent commissary usage, resulting in annual savings of ~\$4,500. The average servicemember does not shop exclusively at the commissary and independent analysis shows the commissary may only save the average servicemember \$600–\$2,250 annually.

The below table depicts the OSD estimated average monthly increase in pay and benefits from (fiscal year 2014 to fiscal year 2017) after implementing all the PB15 pay and compensation proposals.

	E-3 (2 YOS)	E-4 (3 YOS)	E-5 (6 YOS)	E-6 (12 YOS)	O-1 (<2 YOS)	O-2 (3 YOS)	O-3 (6 YOS)
Single	\$98	\$107	\$135	\$167	\$128	\$186	\$230
Family	52	62	0	35	81	133	185

Assumptions:

Single:

- No dependents
- Shops at the commissary 80 percent of the time

Family:

- E-3–E-4 & O-1–O-3: servicemember is married with no children
- E-5–E-6: servicemember is married with two children
- Shops at the commissary 80 percent of the time

Admiral GREENERT. If you look at the literal pay today—this is an E-5 in the Navy, about 6 years in the Navy, three dependents—they make \$64,300. I will back this up. In 2019, which is at the end of this pay period we are talking about, they would make \$76,000. Now, that gives them inflation. If you look at buying power, to be straight with you, they get about a 4 percent loss in buying power as a result of this. That is about \$2,500, not \$5,000. Does that make sense?

Senator AYOTTE. Yes. Basically you would say that the estimate that MOAA gave us—your estimate would be half that.

Admiral GREENERT. Yes, ma'am.

Senator AYOTTE. I appreciate that. I just think it is important for us to understand in the buying power dollars because that is how families operate. It is the junior enlisted level that really are going to have the toughest time with this, and I want to understand that.

General AMOS. Senator, on the commissary issue, which is a sore point for me personally, DECA advertises 30 percent savings across the market for us out there right now. They are saying that as we go down and we put these efficiencies in, this over \$1 billion worth of efficiencies over time, it is going to go down to 10 percent savings. That is a 66 percent drop in savings for my marine. I do not like that. I do not think that is the solution set. I think the solution set is to force DECA to become more efficient and figure out how to do it and do not put that burden on the backs of our young enlisted marines, our lance corporals, our sergeants, our airmen, or seamen.

I think the commissary piece is important. We do not need to turn our back on it. But I think we are going at it the wrong way. I think we need to force DECA to do some of the things that the Services have had to do over the last year to try to live within our means, if that makes sense.

Senator AYOTTE. It does.

Thank you all. I appreciate it. I know I am beyond my time.

Chairman LEVIN. Thank you, Senator Ayotte.

Senator Hagan.

Senator HAGAN. Thank you, Mr. Chairman.

Mr. Chairman, I just wanted to express my thanks to Commandant Amos for his incredible leadership over the marines, as well as your wife, Bonnie, for all that she has enjoyed and been through over these so many years. Thank you for your steadfast dedication to our Marine Corps, to our country, and to the State of North Carolina.

General AMOS. Thank you, Senator. I will pass that on to Bonnie.

Senator HAGAN. Please do.

We certainly face difficult decisions in fiscal year 2015, as we all know and have been discussing. It is something that this committee will be closely examining in the coming weeks as we consider the NDAA. Looking ahead, however, we also face the return of sequestration in fiscal year 2016 and beyond.

North Carolina, as all of you know, has one of the largest military footprints in our Nation. I am particularly concerned about the effect that it would have on our servicemembers. I am committed to finding a balanced solution that is going to put an end to sequestration in future years.

My question, General Amos, with this likely being your last appearance before our committee as commandant, I am interested in your most blunt view of the impact that the return of sequestration would have on our Marine Corps in the future.

General AMOS. Senator, just trying to pull the figures out—we have testified on this so many times on this in the past. There is absolutely no doubt in my Service and in particularly your State. You are going to go from almost 50,000 marines, a little bit more than that, down to just about 41,000 marines in your State alone, all as a result of the force drawdown, which is driven a lot by sequestration. It is not dollar for dollar, but it is significant.

I think more importantly than that is you are going to take a force whose *raison d'être* is to be ready today, to go tonight. We will continue to do that for about 2 more years, but if sequestration returns in 2016, then you are going to see the readiness of those

units that are designed to and assigned to be ready tonight—you are going to see the readiness in those units fall under sequestration. We have not even talked about modernization, equipment, and all that other stuff. Just the operation and maintenance, the training readiness, the ranges, the ammunition, the fuel, the ability to train those young marines is going fall starting in about 2 years.

Senator HAGAN. That is certainly one of the very reasons that I think it is very important that we take notice of this. We listen to what you all have to say and we certainly work very hard together to be sure that we can stop sequestration.

General Dempsey, as I am chair of the Emerging Threats and Capabilities Subcommittee and I am concerned about how, once again, the continued sequestration could affect our ability to meet the challenges in the future, if sequestration returned in fiscal year 2016, what threats concern you the most in terms of our ability to be prepared?

General DEMPSEY. I think three things, one I mentioned to Senator Blumenthal, which is the uncertainty that will persist within the force, and that is going to have issues in the human dimension. These are real people we ask to do this work. We owe them a little certainty in their lives.

Second, it will affect our ability to maintain forward presence to the degree we believe we should. When we are forward, we deter our adversaries and we reassure our allies. If we have fewer forces forward, we will be less deterrent and less reassuring to our allies.

Third, as General Odierno mentioned, should a contingency arise, we will have less in readiness back here to flow forward to respond to that crisis.

Those are the three things I would suggest we should take very seriously. In the aggregate, they define a level of risk that at sequestration levels we believe to be unacceptable.

Senator HAGAN. Thank you.

I did want to ask a question similar to what Senator Ayotte was talking about in her last question. Unlike the private sector, where most companies can easily recruit mid-level employees, in the Armed Forces we do not have an alternative but to build and develop our mid-grade officers and non-commissioned officers from within. As our servicemembers reach that midpoint of their careers, they are making these critical decisions about whether or not to make the military a career. These officers and noncommissioned officers obviously have a wealth of experience with multiple deployments many times to Iraq and Afghanistan.

How do you think they will view DOD's proposed compensation proposals? I would put this out to anybody.

Admiral WINNEFELD. I can give you some numbers that are rough numbers. We find that in retention, which is I think the question you are asking, that a 10 percent pay increase historically—we have had more increases over the last decade than decreases—for first-term retention increases retention about 10 to 15 percent. For second-term retention, it increases at about 10 to 13 percent, and it increases career retention about 5 percent. If you were to take a 10 percent decrease, which is not at all what we are talking about here—we are just talking about lowering the trajec-

tory of increases. They are smaller increases—presumably you would have a commensurate effect.

I think what we are hearing from our people is that there might be some small impact on retention but that based on the current economy and a number of other factors, we think we are going to be okay. We carefully considered that as we designed these proposals to not end up with a break in retention.

Right now, the Air Force is retaining and I would defer to the chief over there. But in 10 of 11 categories, the Air Force is exceeding its goals. In career retention, they are at 96 percent, just as an example.

Senator HAGAN. Thank you. Once again, General Amos, thank you.

Senator NELSON [presiding]. Thank you, Senator Hagan.

Now, Senator KAINE.

Senator KAINE. Thank you, Senator Nelson.

To members of the panel, thank you for your service and your testimony today.

I just want to associate myself with the comments about sequestration. One of the first votes I cast when I came into the Senate was to eliminate sequester as needless and poor budgetary strategy. Together with colleagues, Senator Nelson, Senator King, and others on the Budget Committee, we worked to at least reduce the effect of sequester in fiscal years 2014 and 2015. Those of us who are on the Budget Committee, those of us on Armed Services, many of us are going to be trying to do the same thing with 2016 and carrying it forward.

General Dempsey, just to open my questions in this vein about sequester, are the recommendations that are part of this budget, including the compensation recommendations we are discussing today, driven primarily by optimal defense strategy or by budgetary caps imposed by Congress?

General DEMPSEY. This is a bundling of reform. There are some things in there that we would have clearly wanted to do whether sequestration was a fact or not. Then there are things that are very clearly the result of sequestration.

We are trying to recover from 12 years of conflict, restore skills lost, rebuild readiness, recapitalize the force. It is really the aggregate of effects. I would certainly say that sequestration has dramatically exacerbated our challenge. It would have taken us 3 years or more to reset the force whether sequestration was upon us or not, but this really exacerbates it.

Senator KAINE. I think that is an important thing. The optimum for the Nation would be if our budgetary decisions were driven by our strategic choices, especially in defense but in other areas as well. The distant second place is if we let strategy be dictated by budget realities, but what we have really been doing is letting strategy be dictated by budget uncertainties, budgetary gimmicks, and that is the far distant third in terms of the way we ought to be doing defense and other strategy in my view.

Before I came to the Senate, the Senate agreed, as part of the 2013 NDAA, to embark upon the MCRMC process. One of the issues that I have just found kind of compelling, as folks have advanced it, is regardless of the justifications for particular com-

pensation-type changes—and all those that you are advancing seem to me to be good faith efforts to tackle budgetary challenges. Nevertheless, there is an argument that is being made that the Senate embraced a notion that there ought to be this full-scale, 360 degree examination of these changes, and a recommendation would be circa February 2015, and that you should not make changes until then.

What is your thought about whether we break faith with a commitment that we made even if these changes are made in good faith and they are justified, if we embark on those changes prior to the full set of recommendations from the MCRMC early next calendar year?

Admiral WINNEFELD. I think it is important to reiterate what Chairman Dempsey said a minute ago, and that is we fully expect the commission to take a holistic look not only at retirement structure but also the pay structure, how do we structure compensation for our people, what is BAH, what is basic pay, all those sorts of things. What we are talking about here is really tweaks to the existing structure that we would not really expect the MCRMC to say, well, we think base pay should be raised at this percent next year, whatever. I think they are taking a more fundamental look at how we structure compensation overall.

But we believe we need to get going now. We cannot wait for this commission to report to get the savings we need in order to give these young men and women the tools they need to fight. We look forward to the MCRMC's recommendation on structure.

Senator KAINE. Admiral Winnefeld, is it your understanding that the commission, just to use one example, would not be addressing items like what should the level of subsidy be for the commissaries? Do you think that is outside the scope of the work that they are going to be doing?

Admiral WINNEFELD. They might address the level of subsidy there. They can address the full range of things, but our view is their principal role is the structure of compensation. Let us take a fresh look at how we pay our people to see if we have this right in the 21st century. I would not want to rule out that they would look at individual numbers, but we felt we had all the data that we needed right now to get moving on this so we can get the savings we need sooner to get these young men and women the tools they need to succeed in combat.

Senator KAINE. One of the things that I think is most important about the work that the commission does is that they really have a great sense, kind of a scientific survey sense, of what service men and women at all levels feel about the kind of relative priorities of compensation and retirement items. Senator Cornyn and I have today introduced a bill, the Servicemember Compensation Empowerment Act, that directs them, as part of their recommendations, to make sure that they have done a survey. They may already be underway in surveys of that kind, but we think that is pretty important.

Let me ask about this idea that the work of this commission looks at structure. We had a wonderful hearing last week, General Welsh, on the Air Force force structure analysis that really was getting at some of these structural issues. There are more ways to

save money in a personnel system than adjust a COLA or adjust a salary increase. The entire structure of a Service operation is a way to find savings and promote the mission as well. You talked about the continuum of service as an idea within the Air Force.

Are the other Services doing things similar to the Air Force force structure analysis, or is that more being done as part of the MCRMC?

General WELSH. Senator, we look at our structure every single year, and we do a comprehensive review of our structure and how it fits and what the cost is and how it fits within our requirements. We are constantly doing this.

We also look at optimizing the grade plate within the structure, what are the right grades that we should have. What is the right leader-to-led ratio? What is the right leader-to-led ratio in the operational force versus the generating force. We are constantly doing this assessment. Every year we look at it anew to make sure we keep it in balance and have it right, and that is part of this.

But we are all in different places. We are significantly reducing end strength and structure now. We are doing about everything we can in that area, and that is why for us it is important to take a look at some of these other areas as well.

Senator KAINE. Admiral Greenert?

Admiral GREENERT. We do a 30-year shipbuilding plan and submit it to Congress annually and a 30-year aircraft building plan. We roll into that the strategy of DOD and the requirements of the combatant commanders. Then we do what is called a force structure assessment where we balance predominantly ships, but we look at all capabilities, our ability to meet the combatant commanders' present requirements and the operational plans, as well as the scenarios of DOD. We roll those factors in. That is done every time we change the strategy or make a tweak to the strategy and at a QDR.

Senator KAINE. Briefly, General Amos?

General AMOS. Senator, we have done three of them in the last 3½ years. The first one took over a year, a force structure review going on right after I took this job. The last one was in the face of sequestration last year. That designed the force to come from 202,000 down to 175,000. Within that, though, we looked to how we can afford that 175,000 force. We looked at pay structure inside grade plates, that is what we are talking about.

We are the youngest of all the Services, and so we have the lowest numbers of what we call top-six ranks. They are the most expensive both in the officer and the enlisted side of the house. We look at can we make it even more less top heavy. The answer is no because we are so lean right now at that level. We have about 11 enlisted marines for every officer. That is the ratio. I think it is the best.

The answer is yes, we have looked at it, and sir, we are about where we are.

Chairman LEVIN. [presiding]. Thank you, Senator Kaine.

Senator King.

Senator KING. We have just a few minutes left before this vote, so I am going to try to be quick.

These hearings must drive you guys crazy. I have been coming to these hearings with you for a year and a half. Everybody talks about sequester and yet nobody does anything about it. Then we are acting like sequester came from Mount Olympus. It is self-imposed. I call it the Wile E. Coyote budget theory. You remember Wile E. Coyote in the Road Runner cartoons? You throw an anvil off the cliff, run to the bottom, look at the camera, smile stupidly, and then it hits you on the head. We created this problem, and we can do something about it. You guys must go and tear your hair out. Perhaps not you, General Odierno. [Laughter.]

Chairman LEVIN. Actually he did have hair before sequestration. [Laughter.]

Senator KING. That is right.

But it is entirely self-imposed, and we act like everybody around this committee, both parties, talks about how terrible it is, and yet, we do not really move to do anything about it.

General Dempsey, I assume you do not want to make these cuts that you have presented, but you have to because it is a zero-sum game. Is that not correct?

General DEMPSEY. It is certainly in our best interests to be the best stewards of America's resources, and there are some things we would do anyway. But as I said earlier to Senator Kaine or to Senator Blumenthal, sequestration has made this almost a mind-numbing experience.

Senator KING. But the reality of the world that we are in right now that you are facing—it seems to me it is a new reality for Congress—is that it is a zero-sum game. If we do not accept your recommendation, then that is \$2.1 billion a year, \$30 billion over 5 years that has to come from somewhere else.

General DEMPSEY. Absolutely, and that is why I mentioned to the chairman if we wait 2 years, it is \$18 billion.

Senator KING. Your professional judgment unanimously—and I heard on the Personnel Subcommittee from the senior enlisted unanimously—was that this is a sensible alternative particularly when compared to the cuts to readiness that would otherwise have to take place. It is not a “both/and.” It is an “either/or.” Is that correct?

General DEMPSEY. That is correct.

Chairman LEVIN. Let me interrupt, if I could, for one second. We have a vote. We are near the end of it. When you are done, Senator King, if you could recess this, if there is nobody here, for 10 minutes. Senator Nelson is coming back, I know. He has not had his first round. If you all could stay during that recess, we would appreciate it.

Senator KING. I think we can recess now, Mr. Chairman. I am set.

Chairman LEVIN. We will recess until someone else comes back, and give you folks a chance—

General DEMPSEY. It is the story of our life, Mr. Chairman. [Laughter.]

[Recess.]

Senator NELSON [presiding]. The committee will come back to order after the recess.

Senator Graham.

Senator GRAHAM. Thank you, Mr. Chairman-designee. You would make a great chairman.

Thank you all for being here today.

First, I would just get my advice out of the way. We have a commission that is supposed to report back to Congress here I think next year, and I would like to hear from the commission before we make any real substantial changes. I understand what you are telling Congress. You have some things that you need to do now because of budget cuts.

Senator McCain asked a good question. Your big fear is sequestration. I want to turn it around a bit. Even if you had all of the money you could possibly ask for within reason, would you still want to make personnel changes, reform the personnel system?

General DEMPSEY. Yes, absolutely, Senator. We have actually testified to that in the past. We have a new demographic. Different things appeal to different kids, and we would want to take a look at all that.

Senator GRAHAM. Whatever personnel footprint you have, you have to make it sustainable.

We are having a dilemma here. We are trying to make sure the pay and benefits are consistent with the sacrifice, as much as possible. It is good for retention. It is fair, and the tie goes to the soldier, sailor, airman, and marine because if there is a doubt, I want to give them more, not less. But it has to be sustainable.

Now, General Grass, we have offered TRICARE to reservists and Guard members. Is that correct?

General GRASS. Yes, Senator.

Senator GRAHAM. How has that been received?

General GRASS. Senator, about 12 percent of our force has bought into it.

Senator GRAHAM. I think over time more will buy into it, and I think it is a good retention and readiness tool. When we deploy from the Guard and Reserve, sometimes we find that health care problems are the biggest impediment to getting people in order. Having continuity of coverage, I think, makes sense from readiness, and as far as retention, if a member of the Guard or Reserve could sign their family up for TRICARE, it is a real inducement to stay in. That is an example of expanding benefits.

When it comes to taking care of our troops, we are doing more on the sexual assault front. Is that right, General Dempsey?

General DEMPSEY. Yes, Senator.

Senator GRAHAM. I want to applaud everybody on this panel for taking the issue seriously. I like the way you are headed. We are providing Judge Advocates General (JAG) to every victim. I just think what we are doing on the sexual assault front will pay dividends.

We have post-traumatic stress disorder (PTSD) problems. We have suicide prevention programs. All these programs cost money. Is that right, General Dempsey?

General DEMPSEY. They do, Senator, and it is money well spent.

Senator GRAHAM. I could not agree with you more.

On one side, you are increasing benefits based on reality of retention and problems associated with long-term service in a very dan-

gerous world. On the other side, we are trying to create sustainable pay and benefits.

From the Marine Corps point of view, what percentage of your budget, General Amos, is personnel cost?

General AMOS. Sir, it is 63 percent.

Senator GRAHAM. Navy? Please, everybody answer that question, if you could.

Admiral GREENERT. It is about a third, sir.

General ODIERNO. 48 percent.

General WELSH. Sir, roughly 48 percent with the military and civilian together.

Senator GRAHAM. General Dempsey, one of the things that we are looking at is prospectively maybe redesigning retirement. You are going to wait on the commission as far as that is concerned. Is that correct?

General DEMPSEY. That is correct, Senator.

Senator GRAHAM. Count me in the camp of putting retirement on the table, making it more sustainable, more efficient, but still generous.

The real big issue I think is TRICARE. Is that a fair statement from all of your perspectives?

General DEMPSEY. I think the big three are actually pay, TRICARE, as well as BAH.

Senator GRAHAM. Okay. As we look at the big three, we are going to be looking at trying to make the pay/benefit system more sustainable but yet still appropriate for the sacrifice. Is that correct?

General DEMPSEY. Yes, sir.

Senator GRAHAM. You are asking Congress to be a partner in this.

General DEMPSEY. Yes, sir.

Senator GRAHAM. I am asking Congress to keep an open mind to our veterans organizations. We will listen to you. We should, but we have to get a handle on this because over time TRICARE becomes a larger part of the budget. Is that correct?

General DEMPSEY. That is correct, sir.

Senator GRAHAM. Very much like Medicare. We are going to have to deal with the cost of health care in a responsible way.

If we make these personnel changes and we adopt a reform package like you just said, some kind of reform, how much do you think it would save over time for DOD?

General DEMPSEY. The submission that we have currently proposed—

Senator GRAHAM. No. I am talking about pay and benefits. I mean, what is your goal?

General DEMPSEY. I think the goal is to actually slow the growth. As you noticed, each Service has a different model, and each Service would probably be better able to answer that question.

Senator GRAHAM. What is your goal in the Marine Corps after all these reforms, General Amos?

General AMOS. Senator, right now in this FYDP, I am looking at \$1.2 billion over the next 10 years.

Senator GRAHAM. You do not have to answer this question today. Pick a number that you think is a sustainable cost, a percentage of your budget, and let that be your goal. The goal is going to be

each Service is going to pick a percentage of your budget. What do we have to do to get there? That is running the place like a business. Personnel costs have to be managed. Let us pick a fair amount of the budget to go to personnel, understanding that is the heart and soul of the military. They have to be well taken care of. Their families have to be well taken care of, but it has to be sustainable.

Now, I will end with this. Once you put all these numbers together, can you please, for the 555th time, tell Congress that no amount of personnel reform is going to save the military from being a hollow force if you do not fix sequestration. Is that still a true statement?

General DEMPSEY. It is truer today than the last time we had this conversation.

Senator GRAHAM. Does everybody agree with the Chairman's assessment?

General ODIERNO. Yes, Senator.

Senator GRAHAM. Let the record reflect everybody nodded in the affirmative.

Thank you.

Chairman LEVIN [presiding]. Thank you, Senator Graham.

Senator HIRONO.

Senator HIRONO. I got back just in the nick of time.

I start by thanking all of you for your service, of course.

I join my colleagues in saying that we need to get rid of sequestration because it has done so much damage to our readiness and other aspects of the military. I am with my colleagues who are going to commit ourselves to getting rid of sequestration.

I have a question for General Amos regarding the commissaries. That is something that our service people understand. Their families go to the commissaries. They know what the price differentials are. General Amos, you said that we should force DECA to become more efficient rather than raising the prices so that the differential becomes so much less. I am completely in agreement with you.

Does that mean that you know of examples, or perhaps any of the other chiefs? Do you have examples of where commissaries need to find efficiencies? What is inefficient that they are doing that they should just address right away in your view?

General AMOS. Senator, first of all, you are absolutely correct on what our families are saying. The commissary issue itself is radioactive. Again, our efforts never even suggested closing commissaries. That was never on the table and it is still not today for us.

But we have already talked about some of the efficiencies. Admiral Winnefeld talked about that.

Senator HIRONO. Excuse me. Are you talking about the generic drugs?

General AMOS. Yes.

Senator HIRONO. I completely agree with you on that. I cannot understand why we do not allow generic drugs to be sold in our commissaries.

Admiral WINNEFELD. It is not just drugs. It is generics across the board. I used the drug example because I could compare it to the

exchange, which does not sell food. But there are similar stories across.

Senator HIRONO. Thank you for that clarification.

That is a change that should occur, and you are saying that you cannot do it on your own, that it would require some change in the law?

Admiral WINNEFELD. That is our understanding. We would like to see it happen. I can give you the example. I went out because my knees hurt and I use ibuprofen. I went out in town to a chain store. \$8.99. The commissary sells it for \$7.98, a pretty good deal. But the chain store sells a generic for \$4.49, and the exchange sells it for \$2.10. I think that there are some substantial savings that we could put right back in our people's pockets that would easily offset at least a portion of any subsidy.

Senator HIRONO. I agree with you. That sounds like low hanging fruit that we ought to pick immediately, if not sooner.

General Amos, do you have any other areas where you can see efficiencies by our commissaries?

General AMOS. Senator, I do not have specific areas, but I will just say this across the board. Years ago, the Marine Corps exchange—and I think it was that way in the other Services as well—received what they called appropriated funds. In other words, they were subsidized so they were not forced into making good business decisions. It is a little bit like Senator Graham was just talking about being a good steward of your money. That is not the case here. This is a subsidized institution, and I think it is time to change that. I think it is time to force them to go back and do things economically.

Now, economically in my mind does not equal taking the 30 percent savings away from our families. That is not what I am saying. I am saying figure it out. We cannot sit at a hearing and understand all that that means. But I am confident that they can, the same way that our Marine Corps exchange did years ago. You can go the Marine Corps exchange today and you still get a pretty good bargain.

Senator HIRONO. I agree with you because in earlier hearings, the number of the savings or the price differential would go down to only 10 percent instead of 30 percent. That sounded like that was going to be the result. But now you are saying that, no, there should be some other avenues before they start raising those prices. I completely agree with you. I hope we are all on the same page on that.

Admiral WINNEFELD. Ma'am, one of the things that I mentioned in my opening statement was that we exempted the commissaries from the 20 percent staff cuts that the rest of us are taking. We did that to help them with the first year's \$200 million. I am not even going to suggest that they could make 20 percent. They have to run their enterprise. It is a distribution network and they have stores they have to man. But we think they ought to look there. Certainly it is one of the efficiencies that you talked about.

Senator HIRONO. General Dempsey, you said that for you to come up with the kind of suggested savings in personnel costs, it was a 1-year process, and it included most senior officers and enlisted leaders and select mid-grade servicemembers. That says to me that

the vast majority of our servicemembers are not aware of your suggestions. Maybe you are doing some things to get the word out because I think it is really important to educate our servicemembers, explain to them that the cuts that are being made are not mainly coming on their backs because it begins to feel like that if their housing allowance is not what it is or that the commissary prices are going up or that their pay is slowing down.

I think it is going to be very important, as we go forward, knowing that these cuts represent just a smaller percentage of what personnel costs actually represent, 30 percent versus these cuts, 10 percent. I think it is important to get the word out to the servicemembers because, believe me, if that does not happen successfully, I do think that we are going to start hearing from our constituents and pretty soon it is going to be hard for us to support these cuts.

Can you tell me what you all are doing to get the word out so that we know we are all in the same boat here?

General DEMPSEY. All of us and those behind us and those at every echelon of command are engaging our population on this very subject. Whenever I travel—and I travel quite extensively—I will always hold a townhall meeting. This is always a topic of conversation.

I offer the chiefs the opportunity to elaborate, if you would like.

General WELSH. Senator, Chief Master Sergeant of the Air Force Cody and I have been visiting Air Force bases all over the world. Like the Chairman, we hold large audiences and forums everywhere we go. We talk about this subject every time. We take questions about it. We answer concerns. We make sure they understand what the proposals are and what they are not. Our force is actually aware of what is going on. I do not think you will find any individual who says he likes the idea of anybody slowing cost growth if it benefits their family, but they also will tell you that they would really like to have the best tools in the world. They really would like to be trained better than anybody else, and they take great pride in being the best in the world at what they do. If they cannot do that, they will find other employment.

Senator HIRONO. That is reassuring. Thank you. I believe my time is up.

Chairman LEVIN. Thank you, Senator Hirono.

Senator Nelson.

Senator NELSON. Thank you, Mr. Chairman.

General Dempsey, some have suggested that instead of the recommendations on changes in military compensation, that we should cut the civilian workforce. Some estimates are that you would need to cut 100,000 in the civilian workforce. Do you believe that cuts of that magnitude of civilian workforce is a feasible alternative?

General DEMPSEY. No, I do not, Senator. In fact, it has been our advice in these conversations with DOD that the reductions in the size of the end strength of the combat power of the Nation should be matched by a commensurate reduction in the overhead of DOD and it includes out into what we call the fourth estate, the defense agencies. Secretary Hagel has directed a 20 percent reduction across the board. But I think that would devalue the contribution

of the civilians who are our wing men and foxhole buddies and swim buddies in this enterprise.

Senator NELSON. Mr. Putin continues to be very aggressive, and whether it is uniformed personnel on the border of Ukraine or whether it is the non-uniformed people that are proxies that are stirring up things inside, he has now moved on Odessa.

What can you share publicly are the plans of the U.S. Armed Forces, as well as the North Atlantic Treaty Organization (NATO), with regard to this aggressive action by Russia?

General DEMPSEY. What I can say publicly, Senator, is that the United States has three instruments of national power: economic, diplomatic, and military. They are all being applied to this challenge of an assertive and aggressive Russia. The military instrument at this point with regard to the Ukrainians is support in terms of nonlethal assistance, intelligence sharing at some level. The military instrument is principally involved in reassuring our NATO allies by the deployment of additional resources, the deployment of planners, the conduct of exercises to assure our NATO allies that we will live up to our Article 5 responsibilities under NATO.

Senator NELSON. An example of that would be the F-16s that you recently sent to Poland.

General DEMPSEY. F-16s to Poland, an increase in ship presence, deployment of company-sized elements out of the 173rd Airborne out of Vincenzo into the Baltics and Poland. Yes, sir.

Senator NELSON. Thank you, Mr. Chairman.

Chairman LEVIN. Thank you very much, Senator Nelson.

Senator Sessions.

Senator SESSIONS. General Dempsey, thank you and thanks to all of you for your service. You have been given a thankless task. You have led us magnificently in combat. All of you have. I know how many hours you work.

When people think about how much you should pay a person in the military, often they forget there is no overtime. There are weekends and full deployments of months at a time often in dangerous areas that we are asking them to go. I do believe there is a bond that the American people must have with those we send into dangerous places—and we ask them to leave their families for an extended period of time—that cannot be broken. I think that is fundamental.

Now, I had to leave to go to the Budget Committee where I am ranking member. I am seeing this from both sides, and I know how much of a danger this Nation faces from the debt. The Congressional Budget Office director, Mr. Elmendorf, told the Budget Committee a few months ago that last year we spent \$221 billion on interest. That is about half the defense budget. We get nothing for that. It has to be paid first. He projects, however—and this is a dangerous thing—by 10 years from today, we will pay \$875 billion in interest in 1 year. That is a \$650 billion increase in the amount we are paying for interest over this period of time. We had the Secretary of Education before us, and I told him it is going to threaten your education budget.

First of all, I think DOD is taking this seriously, and I respect you for it. I am totally of the belief that you are being asked to do

more than any other department in the Government is being asked. I think the numbers will show that.

But it is a huge department and we have agreed to certain budget limits on spending, and we need to adhere to them. Relief was given in Ryan-Murray earlier this year, and I am hopeful that that would be sufficient, that we could get through this period with the help from that act. Maybe not. We will just have to hear from you.

This really worries me. It keeps me up at night. It is the toughest thing that causes me frustration because the President is also saying if we increase any spending for DOD, we have to increase non-defense spending an equal amount, doubling the amount so it busts the budget that he signed. He is the Commander in Chief. You would think he would be here more forcefully advocating priorities that need to be set.

General Dempsey, you have heard former members of DOD and others question the number of civilian personnel. I believe Senator Nelson mentioned that earlier. One estimate that I heard that I think is accurate, that since September 11, we have added about 100,000 civilian personnel. That was presumably to support an increase in Active-Duty Forces which was considerable, but as those Active-Duty Forces return to a level, which I understand your plans call for—returns to a level of what it was in 2011, why should we not be able to reduce civilian personnel by 100,000?

General DEMPSEY. Senator, there are three groups of individuals, all of whom make up the total force, and that is, of course, the service men and women, civilian DOD employees, and then contractors. Contractors will take a more significant cut followed by the DOD civilians and the uniformed military.

Senator SESSIONS. But on a percentage basis, General Dempsey, personnel—will you not be reducing military uniformed personnel in a bigger percentage than civilian?

General DEMPSEY. That will probably vary slightly. Not slightly. It will probably vary Service by Service.

But you do know, Senator, that 90 percent of the people we are talking about are not in Washington, DC. They are out in shipyards and depots and training areas. They are doing important work.

If I could, sir, I think maybe one of the Service Chiefs would want to talk about that aspect of the way they build their force.

Senator SESSIONS. Let me just say I fully respect their contributions, and many of these are former military people. They will deploy. Many of them from Alabama were in Iraq and Afghanistan during hostilities assisting the military in their mission. However, it may be a bit harder personnel-wise to reduce a civilian employee as compared to a military employee. As for me, I do not think that should be. I think we should make sure that civilian personnel face the same evaluations that uniformed people do.

General DEMPSEY. I agree with that, Senator.

Do any of the chiefs want to talk about the civilian aspect of this?

General ODIERNO. Senator, in the Army, we are reducing. As the Chairman said, there is a triad of military, civilian, and contractors. The military is much easier because it is a billet, it is a face. It is very easy to understand. But we have also cut the budget on

our contractors. We have cut the budget on our civilians. That is what controls the number of civilians and contractors, the number of dollars allocated. We have come down about 20,000 civilians so far in the Army, and that will continue to come down at a rate equal to what our military members will come down as we continue to look at out-year budgets.

We are also looking very hard at reducing our contract support to our sustainment and maintenance and try to do more with uniformed personnel, and we are looking at that very carefully.

We are also looking at the contracts we have that we think are more service-related that can be done by others.

If, for example, I cut contracts and installation, then I have to use borrowed military manpower. It is one or the other because it still has to get done. If I cut the contracts for cutting grass and doing other things, then I have to have military cut the grass. I have to have them work in our dining facilities. I have to have them do these other things that contractors have been doing. It is all things that have to get done.

We can cut contractors and we will. We will cut some of our civilians, but some of them we cannot because they are too valuable, as you mentioned, to everything we do. But if we do, the military is going to have to take over some of those responsibilities. It is just stuff that has to be done.

Again, I would just throw out there right now we are not reducing any installations because there is no BRAC. We are reducing 150,000 men and we have to sustain these installations, and it costs us a lot of money. We have to hire contractors. We have to hire civilians. If we cannot do that, we are going to have to use borrowed military manpower to do it. That is the bottom line.

Senator SESSIONS. Thank you. I will submit some questions about the numbers. But my impression is that you are having a larger percentage of reduction in uniformed personnel than we are in civilian personnel, and I am troubled by that.

Chairman LEVIN. Will you give us that Service by Service for the record? Thank you.

[The information referred to follows:]

General ODIERNO. The Army's programmed and projected reductions across the Future Years Defense Plan (FYDP) for fiscal years 2015–2019 are as follows. The fiscal year 2011 data is provided for comparison only.

	Fiscal Year					
	2011	2015	2016	2017	2018	2019
Active Army Personnel	565,463	490,000	470,000	450,000	430,000	420,000
ARNG Personnel	361,561	350,200	336,300	328,900	321,500	315,000
USAR Personnel	204,803	202,000	195,000	190,000	185,512	185,000
Civilian Full-Time Equivalents	260,929	238,300	229,558	225,084	219,043	218,681

Admiral GREENERT. The Navy has planned modest reductions in active and Reserve component military end strength (700 E/S, 0.2 percent) from fiscal year 2014 to fiscal year 2019. Conversely, the Navy is reducing Navy Secretariat and Service government civilian full-time equivalents (FTE) by 3,800 (2 percent). In addition, our fiscal year 2015 President's budget aggressively pursues contracting efficiencies and proposes a collection of business transformation initiatives, including contractual services reductions (about \$14.8 billion FYDP).

In the Navy, the factors used to determine appropriate military end-strength and contractor/civilian FTE levels are different. Military end strength is directly tied to force structure, or the number of ships, aircraft and equipment the Navy has to

staff. The Navy mans equipment, vice other Services that equip their manning. Contractor/civilian FTE levels are more aligned to business operations, which are not directly tied to force structure. For example, as the Navy builds ships with more advanced systems that require smaller crews, military end strength may decrease, but contractor/civilian FTE levels may increase as the ship will require more complex maintenance work in the shipyards. Thus, I feel that the planned military end-strength and contractor/civilian FTE levels are right for the Navy, but they are largely independent from each other, so there is no right ratio.

General WELSH. From fiscal year 2014 through fiscal year 2019 we anticipate an overall reduction of 4.9 percent of Air Force Total Force military personnel, with a reduction of 3.4 percent of our civilian end strength during this same period. This equates to an overall Air Force reduction of 4.5 percent in our total workforce. While the percentage of change between these types of manpower is relatively comparable, the Air Force did not target either of these segments specifically. Rather, the Air Force looked at headquarters and whole systems and/or weapon systems to find the means of achieving the fiscal savings driven by the Budget Control Act targets.

The Air Force's fiscal year 2015 budget submission aligns program priorities and resources with fiscal realities and will drive the Air Force to become smaller. The resultant personnel reductions are tied directly to the divestiture of weapons systems, headquarters realignments, and a rebalancing of aircrew-to-cockpit ratios in a post-Afghanistan environment, the majority of which resulted in military reductions. Efforts to downsize our headquarters activities allowed the Air Force to plan civilian reductions.

Absent changes in Base Realignment and Closure and Depot legislation, the Air Force will be hindered in finding additional civilian personnel savings. In the last four budget cycles (i.e., fiscal year 2012 PB, fiscal year 2013 PB, fiscal year 2014 PB, and fiscal year 2015 PB), the Air Force has reduced its civilian workforce by ~25,000 billets. These reductions, along with a 3-year pay freeze, furlough, and government shut-down, have significantly impacted the civilian workforce. Arbitrary, non-programmatic reductions to the civilian workforce would be untenable and would severely compound readiness shortfalls.

General AMOS. The optimal Marine Corps Active-Duty Force remains 186.8K with a commensurate civilian workforce of 17.5K full-time equivalents (FTE). In the PB14 submission, the Marine Corps accepted risk in the Active-Duty Force and was funded at 182.1K. Solely as a result of the fiscal constraints, particularly with the continued threat of sequestration or a significantly reduced top line, the PB15 submission reflects the Marine Corps' plan to draw down to an active duty end strength of 175K and a civilian workforce of 15.7K FTE by fiscal year 2017. This equates to a 6 percent and 10 percent reduction respectively from our optimal force structure requirements. While the Marine Corps will continue to support the President's National Security Strategy, the Defense Strategic Guidance, and posture to meet steady state forward presence and crisis response requirements around the globe, it comes at the expense of risk to major combat operations, infrastructure sustainment and equipment modernization, and increased stress on the force.

Chairman LEVIN. Senator Gillibrand?

Senator GILLIBRAND. Thank you, Mr. Chairman.

Thank you all for your service. Thank you for testifying today before our committee. I am very grateful.

Obviously, these are very tough times, and we are all concerned about how to manage our mission and operations to the best of our abilities. As the chairman of the Personnel Subcommittee, I am very worried about tradeoffs we are making in terms of military families, particularly those who are the lowest paid.

General Dempsey, you mentioned in your opening statement that you are unable to retire weapon systems that you no longer need and cannot afford. Can you tell us more about these systems and what kinds of savings you could find if you do retire them? Every time we pass a budget in Congress, it is all about priorities. I want to hear a little bit about that as a source perhaps for funding for things that we think are higher priority.

General DEMPSEY. Yes, thanks, Senator. I would like to take that one for the record as well.

[The information referred to follows:]

The attached document was provided to Senator Gillibrand's office on 19 May via a separate request.

PROGRAM TERMINATIONS, RETIREMENTS, AND RESTRUCTURES

OVERVIEW: As part of its plan to absorb nearly \$1 trillion in budget cuts over ten years, the Department recommends terminating or restructuring weapons systems acquisition programs that are experiencing significant developmental problems, unsustainable cost growth, and inefficient or ineffective operations, and realign the funding to higher priority national security requirements. These difficult decisions were made to meet the budget caps set by law, but only after a thorough review and prioritization of force structure, readiness, and modernization requirements.

FY 2015 Aircraft and Ship Retirements:

The aircraft and ship retirement target is essential to meet warfighting requirements, maintain readiness, and perform missions safely. In FY 2015, the Department plans to retire 469 Active, Reserve, and Guard aircraft, with a total estimated savings to the Department of \$1.1 billion. In addition, the Department plans to retire 13 ships (primarily frigates) and place an additional 11 ships (cruisers) in a stasis status pending future modernization.

Program	Total Inventory	Retired FY 2015
Aircraft		
CH-47D	165	-17
UH-60A	526	-69
C-20 (Army)	2	-1
C-12	132	-9
E-2C	50	-2
EA-6B	34	-9
P-3C	125	-18
CH-46E	45	-32
HH-1N	4	-4
SH-60B	35	-21
SH-60F	7	-3
C-20 (USAF)	10	-10
MC-12W	42	-42
C-130H	266	-58
E-3	32	-13
C-38A	2	-2
F-15C	240	-49
A-10	283	-110
Ships		
Nuclear Attack Submarines	54	-1
Surface Combatants	93	-10
Expeditionary Warfare Ships	30	-1
Combat Logistics Ships	29	-1
Surface Combatants	50	-11

Select Program Details:

- **A-10:** The President's Budget submission proposes to retire the entire A-10C fleet (283 aircraft), beginning with 110 aircraft in FY 2015, to focus available funding on more survivable multi-role platforms better capable of providing Close Air Support in future conflicts.
- **U-2:** In the FY 2015 budget request, the Air Force alters its high-altitude ISR capacity through the restoration of the RQ-4 Block 30 and subsequent planned retirement of the U-2 in FY 2016.
- **KC-10:** If constrained by the limitations of the Budget Control Act in future years, the Air Force will be forced to divest the entire KC-10 fleet, beginning in FY 2016, to allow the Air Force to retain critical core capabilities, avert significant KC-10 sustainment and modernization costs, and preserve investment priorities such as the KC-46A, F-35, and Long Range Strike-Bomber.
- **OH-58:** The Army will divest the aging OH-58 Kiowa Warrior over the next few years, beginning with the termination of the Cockpit and Sensor Upgrade Program and the discontinuation of all major modifications.
- **Ground Combat Vehicle:** The Army terminates the GCV in FY 2015 and continues development efforts toward a future infantry fighting vehicle.
- **CVN-73:** The President's preference is to refuel the USS George Washington (CVN-73), but because of the uncertainty about Congressional action, and the need to begin planning now for large force cuts, our current five-year plan reduces selected end strengths and forces to levels consistent with sequester-level cuts. These cuts could be reversed if funding later rises above sequester-cut levels.

Previous Denials/Restorals:

In FY 2014, Congress prevented the Department from terminating, retiring, or restructuring several programs, including (but not limited to):

- **C-23:** Prohibited retirement and permitted the transfer of only 15 aircraft to Department of Agriculture for fire-fighting requirements.
- **EP-3E:** Prohibited retirement until fielding replacement with equal or greater capability and capacity.
- **Cruisers and Dock Landing Ships:** Prohibited retirement of Ticonderoga class cruisers and dock landing ships, except USS Denver.
- **Global Hawk Block 30 (RQ-4):** Prohibited retirement.
- **B-1:** Required the Department to maintain 36 combat coded B-1 bomber aircraft and restricted the retirement of 3 B-1 aircraft and one aircraft in fiscal years 2014, 2015, and 2016.
- **C-130 AMP:** Prohibited cancellation of avionics modernization program.
- **Abrams Upgrades:** Added unrequested funding to "maintain critical industrial base capability."
- **BRAC:** Denied additional BRAC round.

General DEMPSEY. I will give you one example because it would cross all Services. Let me take one that is not at all controversial, the A-10. [Laughter.]

If we retire the A-10, it is \$3.5 billion in savings to the Air Force over the FYDP. If we do not, he has to find \$3.5 billion somewhere else. Each Service has an example of something like that.

Senator GILLIBRAND. Thank you, and I look forward to your full response on the record.

Another issue that I care deeply about—and General Dempsey, we have talked about it, as has Admiral Winnefeld—and that is the men and women who serve in our military and their families and

the sacrifices they make to do that. One of the sacrifices I do not think they should have to make is not being able to afford treatment for their kids who have autism or other developmental disabilities. I think it is so unfair that just because you will sacrifice everything for our Nation and serve for our Nation that your kid, your child, who needs these important therapies to learn, to grow, and to develop are denied it because we do not want to make them a priority. I think that is a mistake. I think it is morally wrong.

I would like your thoughts on what is going to happen with regard to that process because I know we are combining all the programs specifically for autism. I have not seen what that is going to look like yet. But I want to know are there going to be barriers to care for children with disabilities and particularly autism.

Admiral WINNEFELD. Senator, it is a great question. Last time you and I dealt with this, we made a little stink over in DOD, and I think we actually fixed that problem. But I do not have the specifics for you. I would like to take that for the record. I believe we are on track. If we are not, I want to know about it because this is something that is terribly important to us. We are on the same sheet of music here.

[The information referred to follows:]

Currently, OSD administers three individual programs that provide Applied Behavior Analysis (ABA) treatment to individuals with Autism Spectrum Disorder (ASD). The proposed Comprehensive Autism Care Demonstration (ACD) combines attributes of all three, is simpler and easier for families to navigate, preserves existing current services, provides the same ABA coverage regardless of duty status, removes existing cost caps, and reduces administrative requirements that caused delays and were cumbersome for family members. Of note, all family members currently receiving TRICARE ABA coverage will require no additional testing or pre-authorization.

CONTEXT: Today, Active Duty Family Members (ADFM) and Non-Active Duty Family Members (Non-ADFM) seeking medical treatment as well as assistance from BCBA for ASD must receive an ASD diagnosis from a TRICARE-authorized Primary Care Provider (PCP) or a Specialized ASD Provider. Under the current three-structure system, to receive additional ABA “reinforcement” services, including in-home assistance from tutors or technicians, ADFMs must also manually enroll in the Exceptional Family Member Program (EFMP) and register in the Extended Care Health Option (ECHO). Non-ADFM, however, are excluded from ECHO. To receive the additional ABA “reinforcement” services, Non-ADFM must enroll in the ABA Pilot Program, which has additional testing and administrative requirements.

BACKGROUND:

- DoD already provides the full spectrum of medical treatment for all developmental disorders (e.g. Fragile X, Down Syndrome, Cerebral Palsy, etc.). This includes physical therapy, occupational therapy, and speech therapy.
- OSD considers ABA non-medical care because it only addresses behavioral symptoms of ASD, not the underlying medical causes, and there is little clinical literature (only 4 clinical trials) on the efficacy of ABA services to treat ASD.
- For comparison, treatment for a cold and/or use of a prosthetic device could also be viewed as treating symptoms rather than the underlying causes of a disease or injury. However, OSD classifies this as medical treatment because it is based on established medical knowledge with years of empirical evidence.

FURTHER SPECIFICS ON EXISTING AND PROPOSED PROGRAMS:

- **TRICARE**
 - Requires ASD diagnosis from a TRICARE-authorized Primary Care Provider (PCP) or by a Specialized ASD Provider
 - Provides the full spectrum of recognized medical treatment including physical therapy, occupational therapy, and speech therapy
 - ABA (non-medical) is provided for all ASD beneficiaries
 - Must be provided by a BCBA (Master's degree or higher)
 - Co-pays vary based on type of plan and duty status
 - ADFMs receiving ABA from BCBA will pay \$0 OOP under TRICARE PRIME (in network/MTF)
 - Non-ADFM co-pays are based on the type of TRICARE plan
- **Enhanced Access to Autism Services under the Extended Care Health Option (ECHO)**
 - Available only to ADFMs
 - Requires ASD diagnosis from a TRICARE-authorized PCP or Specialized ASD Provider
 - Requires enrollment in the EFMP
 - Provides additional ABA "reinforcement" (non-medical) services by:
 - Qualified BCaBA (Bachelor's-level analysts)
 - Non-certified tutors/technicians (working under the supervision of a BCBA or BCaBA)
 - \$36,000 annual benefit cap
 - Co-pays are based on rank
 - ADFMs are also eligible for larger ECHO benefits outside of ABA
 - Respite care - designed to provide temporary relief or rest for the primary caregiver of a beneficiary who requires frequent care (16 hours/month)
 - ECHO Home Health Care (EHHC), designed to provide in-home medical services (nurses, therapists, equipment, etc) to those ECHO beneficiaries who are homebound and generally require more than 28 to 35 hours per week of home health services. EHHC also provides additional respite care (up to 40 hours/week). EHHC does not count towards the \$36,000 annual benefit cap – the EHHC annual cap is based on the cost of providing full-time nursing home care (based on geographic location).
 - ECHO services beyond ABA (e.g. respite care, EHHC) will remain part of the ECHO program and not transition to the new Autism Care Demo
- **ABA Pilot Program**
 - Provides ECHO-like ABA "reinforcement" services for Non-ADFM by:
 - Qualified BCaBA (Bachelor's-level analysts)
 - Non-certified tutors/technicians (working under the supervision of a BCBA or BCaBA)
 - Requires ASD diagnosis from a TRICARE-authorized PCP or Specialized ASD Provider
 - Co-pays are 10% of the charge
 - \$36,000 annual benefit cap
 - Requires Autism Diagnostic Observation Schedule-2 (ADOS-2) and Vineland II test which measure an individual's personal and social skills.

- Originally, these tests were required as a means to measure the efficacy of the ABA “reinforcement” services.
- Delays in testing are the largest contributor to the backlog in Non-ADFM’s receiving the ABA “reinforcement” services. The issue is addressed in the new Autism Care Demo.
- **Proposed Autism Care Demonstration**
 - OMB approved the demonstration on 11 June 2014.
 - Incorporates existing ABA policies into a single program
 - ADFMs who receive ABA from BCBAs will continue to pay \$0 OOP under TRICARE PRIME (in network/MTF)
 - Other ECHO benefits (e.g. respite care) remain unchanged for ADFMs
 - ADFMs and Non-ADFM’s utilizing additional ABA “reinforcement” services will pay the same co-pays as the current ECHO and ABA Pilot Programs. ADFMs co-pays are based on rank and Non-ADFM’s co-pays are 10% of the charge.
 - Targeted for implementation on July 25, 2014 through Dec. 31, 2018.
 - OMB is concerned with DoD expanding TRICARE to cover additional ABA “reinforcement” services without first validating the efficacy of the reinforcement services.
 - OSD(HA) is communicating details of the new program to military families following OMB’s recent approval (to avoid “false advertising”).
 - Existing ABA programs will continue until Dec 31, 2014 to allow beneficiaries to smoothly transition to the Autism Care Demo.

AUTISM CARE DEMO KEY ATTRIBUTES:

- The proposal includes:
 - *No delay in access or services* – Parents have a year to get testing to confirm an initial Autism diagnosis if needed.
 - *No Limits to Care* – **no longer a \$36,000 annual limit** on TRICARE coverage and no lifetime limit or maximum age.
 - *Consolidated care* – Autism Care Demo offers beneficiaries the **same benefit** no matter sponsor status or plan (including retirees).
 - *Simplified diagnosing provider* – Previous policies differed on who could diagnose ASD; now it’s all the same. Also, now some providers can waive the initial testing requirement.
 - *Less physician oversight* – Masters-level or higher Board Certified Behavioral Analysts (BCBA) can perform ABA without oversight.
 - *Complies with latest Behavior Analyst Certification Board guidelines* – All Bachelors-level board certified assistant behavioral analysts will work under the supervision of a Masters-level BCBA.
 - *No Vineland testing required* – BCBAs choose which testing tool or other metric to measure progress.
 - *No diagnostic retesting for existing ABA beneficiaries* - for previously diagnosed patients already receiving TRICARE ABA coverage, no additional diagnostic testing or pre-authorization is required.

Senator GILLIBRAND. You do not want Federal employees’ kids to have better access to care than military families’ kids. That is just not right. I do want to just raise it because it is one of the most expensive and painful things to make sure your child gets the education they need. A lot of the therapies are developmental. It actually affects how their brains form and whether they can reach the level of capacity that they can.

Thank you.

Admiral WINNEFELD. I think the Assistant Secretary of Defense for Health Affairs tackled that, but I do want to get back to you to make absolutely certain.

Senator GILLIBRAND. Thank you.

Similarly, as I meet with the troops around my State, both National Guard, Active Duty, and Reserve, the stress on mental

health access is very high. Access to mental health services to treat PTSD and traumatic brain injury is still quite intense. My question is as we have had a number of families coming home, under the current TRICARE requirements, there are co-pays for these services. Do you believe that those co-pays will cause barriers to care specifically for the mental health of our troops and their families?

I held a hearing to discuss the increase in suicide rates, 11 suicides a day in our military, but there is also an increase in suicide of family members because of multiple deployments, because of PTSD of servicemembers coming home. Obviously, that raises serious concerns to me. I would like to hear a little bit from any of you who want to talk about whether you see barriers to care here.

General ODIERNO. If I could, I think we are doing a good job increasing behavioral health to Active-Duty Forces, and we are trying to get more access to our Reserve and Guard. My concern I think is where you are headed with this—and I agree with you—is for family members because, frankly, even under TRICARE it is difficult to always get care covered for behavioral health under TRICARE for our family members. Sometimes it is accepted; sometimes it is not. Our behavioral health rules for health care need to be looked at, especially as we look at the impacts that the wars have had on our families, especially our children, and that is who I worry about significantly.

I know specific cases where a lot of out-of-pocket expense has to be expended either because it is not covered or there is a co-pay because they do not recognize certain treatments, and so in my mind, this is something we have to absolutely get after over the long term.

Senator GILLIBRAND. I would like your commitment that you will work with me on this to come up with some solutions for how best to protect our servicemembers or their families. Thank you.

Then my last set of questions are for any who want to take it, but what is the DOD's plan for the increased demands at the medical treatment facilities (MTF)? Does DOD plan to hire more medical providers to handle the increase of patients at the MTFs? What will the impact on military families, both Active and Reserve, who do not live near the MTFs—are they going to be penalized for not being able to use the MTFs?

General DEMPSEY. I will give you a general answer. That question probably would be best addressed to the Defense Health Agency, and Dr. Woodson. But I can tell you that our recommendation on our support for forming a single TRICARE system as opposed to multiple systems that are not interoperable with each other is to try to encourage use of MTFs and then in-service care or in-network care and then only out-of-network care as a last resort. That is our role, working with Dr. Woodson because we want to make sure that while we are incentivizing use of MTFs, for example, there may be another process that might be trying to reduce the level of care at an MTF. We are deeply involved in that process right now.

Senator GILLIBRAND. Thank you. Thank you all.

Chairman LEVIN. Thank you very much, Senator Gillibrand.

Gentlemen, thank you. Thank you for all you do for our Nation, for our troops and their families.

We will now move to our second panel. We now welcome our second panel: four so-called outside witnesses. A strange word for folks who have been inside just about every important military operation or thinking that we have done in the last few decades.

Retired Army General John H. Tilelli, Jr., Chairman of the Board of the Military Officers Association of America; retired Army General Gordon R. Sullivan, President and Chief Executive Officer of the Association of the U.S. Army; retired Vice Admiral John B. Totushek, Executive Director of the Association of the U.S. Navy; and retired Air Force General Craig R. McKinley, President of the Air Force Association.

Gentlemen, we thank you for your past service. We thank you for your current service to our servicemembers, the retirees, and their families.

I believe that the order that we are calling on you is to first call on General Tilelli. General, thank you for being here and please give us your statement.

STATEMENT OF GEN JOHN H. TILELLI, JR., USA, RET., CHAIRMAN OF THE BOARD, MILITARY OFFICERS ASSOCIATION OF AMERICA

General TILELLI. It is like old home week, Mr. Chairman. Chairman Levin, Ranking Member Inhofe, members of the Senate Armed Services Committee, thank you for the opportunity to appear before you today to discuss the administration's fiscal year 2015 budget affecting the entire military community. On behalf of the over 380,000 members, Active Duty, Guard, Reserve, families, veterans, survivors, and retirees, of the MOAA, I have the honor and privilege of being here today to represent them.

At the heart of DOD's budget challenge is the devastating effect of sequestration—and we have heard that several times today—and the BCA of 2011.

While debt reduction is a national priority, we believe that such a disproportional share of this burden must not be imposed on DOD and especially on the backs of the military members and their families. MOAA believes that continued sequestration cuts for 2016 and beyond will place national security at risk, and we strongly urge Congress to eliminate sequestration and fund our military to levels that enable all components of the Armed Forces to adequately be manned, trained, equipped, and compensated. No Federal obligation is more important than protecting our national security, and the most important element of national security is the sustainment of a dedicated top-quality All-Volunteer Military Force.

The past 12 years of unprecedented demands and sacrifices highlight how radically different Military Services' conditions are from civilian life. These are the things that many budget analysts and think tanks do not understand. The times the All-Volunteer Force has been jeopardized have been due to budget-driven cutbacks in the military compensation packages that gave insufficient weight to the extraordinary demands and sacrifices inherent in a service career. Yet, today we hear that Congress must slow the growth. They state that personnel costs have risen above 40 percent more than growth in the private sector since 2000 and are squeezing out

dollars for training and equipment. We believe that pitting pay and benefits against readiness is a false choice.

It is important to put the growth since 2000 in context. The All-Volunteer Force is the key to readiness. Have costs risen since 2000? Yes, they certainly have, but using 2000 as a baseline without reflecting that in a historical context is misleading as it implies that it was an appropriate benchmark for estimating what reasonable personnel and health care spending should be. Nothing can be further from the truth.

What caused military personnel costs to grow higher than in the private sector? By the late 1990s, retention was on the ropes because years of budget cutbacks had depressed military pay to where there was a 13.5 percent pay gap. We cut retirement value by 25 percent for post-1986 entrants. We had military families paying 18 to 20 percent out of pocket for housing costs, and we moved beneficiaries over 65 out of military health care facilities.

This committee worked diligently—and I thank them for that—over the next decade to restore pay comparability, repeal our retirement cuts, zero out housing costs, and restore promised health care coverage for older retirees. We thank you and all the members thank you.

Since 2010, Congress has already implemented changes to slow the growth. In fact, the growth has slowed. These have included significant health care fee changes, end strength reductions, pay raises that have either mirrored the private sector or in the case of this year, have been capped below the private sector. The fact is that between 2000 and 2011, personnel and health care costs experienced an average 7.8 percent rate of growth, but that cost was essential to keep the previous commitments and avoid retention and reenlistment issues and from breaking this All-Volunteer Force.

However, between 2011 and 2014, personnel cost growth has not just slowed, it has declined an average of minus 1.5 percent per year, according to the Office of Management and Budget historical tables. The growth has slowed. In fact, it is negative at this point. When you look at the DOD military personnel costs, which include military personnel and the defense health program, these costs average 30 percent of the overall DOD budget.

Between 2014 and 2015 pay caps, the promised housing reductions, the planned reductions in the commissary savings, and in new health care consolidation and fees, an E-5 family of four—that is a sergeant—with 10 years of service, looking at the pay tables, would lose \$5,000 in purchasing power. An O-3, an Army or Marine Corps captain, not a Navy captain, family of four would experience a loss of \$6,000, that is a large percentage of their overall pay. Contrary to when I came into the military, we have a married force today. It is not a single force.

MOAA believes these budget proposals would be a major step backwards towards repeating some of the mistakes and measures which led to retention and readiness problems in the past and would undo the needed compensation improvements Congress put into place since 2000 and again set us up in the future for another parity issue that will have to be resolved.

These piecemeal budget reductions are doubly inappropriate since we have a congressional commission that will be offering even broader reform proposals next year.

America will remain the greatest power only if it continues to fill its reciprocal obligation to the only weapon system that has never let our country down, our extraordinary, dedicated, top-quality volunteer men and women who serve our country and the families who stand behind them.

Now that we are drawing down from Afghanistan, we cannot place these volunteer members of our Armed Forces in our rear view mirror. They listen. They know what is going on, and they do not agree with these proposals.

I thank you. I look forward to your questions. I thank you for your service to our country, and I thank you for all you have done for our men and women who serve. Thank you, sir.

[The prepared statement of General Tilelli follows:]

PREPARED STATEMENT BY GEN JOHN H. TILELLI, JR., USA (RETIRED)

Mr. Chairman and Ranking Member Inhofe. On behalf of over 380,000 members of the Military Officers Association of America (MOAA), we are grateful for this opportunity to express our views and appreciate the committee for hosting this hearing on the fiscal year 2015 defense budget submission and the related personnel program proposals.

MOAA does not receive any grants or contracts from the Federal Government.

We are truly grateful for your unwavering commitment to men and women who defend our fine Nation and we appreciate that Congress have given personnel issues top priority in the past decade.

You have had difficult choices to make while bolstering a weak economy and addressing budget deficits. The past few years have been arduous, with our military winding down operations in Afghanistan and the Nation dealing with the effects of sequestration.

SEQUESTRATION

Sequestration was thought to be so harmful that it would have never come to pass. But it is a reality with DOD still taking a disproportionate share of the burden.

The Bipartisan Budget Act of 2013 mitigated the sequestration spending cuts for fiscal year 2014 and 2015. However, the original sequestration cuts of fiscal year 2016 thru 2021 remain in effect, continuing to place national security at risk.

This concern for readiness and national security was reinforced during Secretary Hagel's Feb 24, 2014 press conference¹ outlining the fiscal year 2015 budget submission when he stated "... the only way to implement sequestration is to sharply reduce spending on readiness and modernization, which would almost certainly result in a hollow force ... the resulting force would be too small to fully execute the President's defense strategy."

The Services have been forced to slash flying hours, cancel the deployment of ships, renegotiate critical procurement contracts, temporarily furlough civilian employees, and are in the process of reducing force structure by some 124,000 personnel.

As a result, sequestration caused the Pentagon to submit proposals in fiscal year 2014 that have started to reverse some of the needed pay and benefits fixes Congress put in place over the past decade—specifically, the military pay raise cap below the Employment Cost Index (ECI) of 1 percent, the lowest pay raise in 50 years.

The proposed fiscal year 2015 defense budget assumes some additional monies will be forthcoming to mitigate sequestration impacts. However, the budget proposes additional force reductions of over 78,000 personnel. If sequestration is not ended, additional force reductions will likely go deeper and training and modernization will be further impacted—further putting our national security strategy at risk.

¹ Hagel, Chuck. "Fiscal Year 2015 Budget Preview." Defense.gov Secretary of Defense Speech: Fiscal Year 2015 Budget Preview. <http://www.defense.gov/Speeches/Speech.aspx?SpeechID=1831>.

What greatly concerns MOAA and should concern the committee are the fiscal year 2015 budget submission proposals that impact personnel costs—a second year of capping the military pay raise below ECI with the possibility of 4 additional years, increasing out-of-pocket housing expenses for military families, significantly reducing commissary savings, and a consolidation of TRICARE plans which will have all beneficiaries except those in uniform paying more for their health care while eliminating access standards.

Several of these are broken promises to our service members and families. Fortunately the House Armed Services panel agrees and rejected these proposals last week.

While debt reduction is a national priority, such a disproportional share of this burden must not be imposed on the backs of military families who already have sacrificed more for their country than any other segment of Americans. Since the conflicts are ending we cannot place those who voluntarily serve in the rear view mirror.

We believe Congress should end the harmful effects of sequestration by supporting a bipartisan debt reduction package that avoids disproportional penalties on the Pentagon and on service members and their families.

MILITARY PERSONNEL AND HEALTHCARE OVERVIEW

What makes our national defense strong is sustaining a top-quality, All-Volunteer Force. This requires a pay and benefits package that is fundamentally different from those of the private sector in order to induce young men and women to wear the uniform for not only one term of enlistment, but also for 2 decades or more.

But military pay and benefits continue to come under attack. For many years, critics have claimed military personnel costs are rising out of control and, if left unchecked would “consume future defense budgets.”²

They’ve attacked pay, retirement, health care, and other military benefits in hopes of diverting funds to hardware or non-defense programs. But time and some hard experiences have proven such claims wrong in the past—and they are still wrong today.

But with this year’s budget rollout, defense leaders are suggesting cuts to pay, the housing allowance, the commissary, and health care stating spending on pay and benefits for servicemembers has “risen about 40 percent more than growth in the private sector” since 2001.³

In addition, late last year there have been other alarming statements on the glide path that personnel costs are on, such as: “by 2025 or so 98 cents of every dollar [will be] going for benefits.”⁴

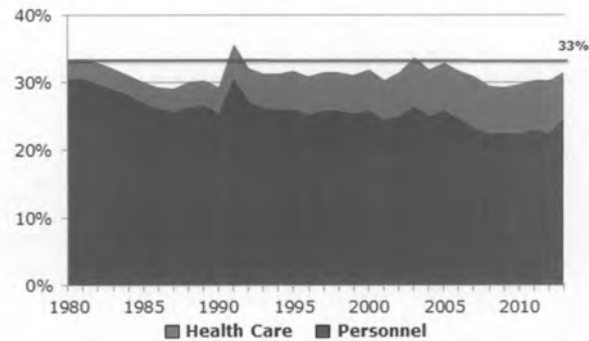
²Eaglen, Mackenzie. “There’s a Storm Brewing in the Pentagon’s Budget.” US News. <http://www.usnews.com/opinion/blogs/world-report/2013/07/29/congress-ignores-obamas-attempt-to-rein-in-military-health-care-spending>.

³Garamone, Jim. “DOD Takes Holistic View of Slowing Military Compensation Growth.” Defense.gov News Article: DOD Takes Holistic View of Slowing Military Compensation Growth. <http://www.defense.gov/news/newsarticle.aspx?id=121701> (accessed April 29, 2014).

⁴U.S. Senate Committee on Armed Services. “Testimony on the Impact of Sequestration on the National Defense.” <http://www.armed-services.senate.gov/imo/media/doc/13-68%20-%202011-7-1311.pdf>.

Military Personnel Costs Aren't Exploding

About one-third of the defense budget goes to military personnel and health care costs – the same share it has been for more than 30 years. That's no more unaffordable now than in the past.



Source: OMB Historical Tables 3.2 and 16.1⁵

The truth is the same one-third of the defense budget has gone to military personnel and health care costs for the last 33 years. That's no more unaffordable now than in the past and they are just as important.

THE FISCAL YEAR 2015 BUDGET

The fiscal year 2015 budget submission proposes several significant pay and benefit cuts which are inconsistent with the sacrifices exemplified by the last 12 years of war.⁶

- Capping pay below the Employment Cost Index (ECI) for a second straight year (with more planned)
- Reducing Basic Allowance for Housing (BAH) by 5 percent, reversing DOD's own initiative to eliminate out-of-pocket housing cost completed in 2005
- Reducing commissary savings for uniformed service families
- Restructuring the TRICARE benefit where active duty families and retiree beneficiaries will pay more for their health care

The Pentagon is suggesting these cuts, in order to "slow the growth" of personnel costs stating personnel costs have "risen about 40 percent more than growth in the private sector" since the turn of the century. Growth has slowed significantly since 2010.

But this is statement needs to be put in the proper context. Personnel cost growth has gone up at a rate greater than the private sector since 2000 ... that's true.

But using 2000 as the baseline without reflecting on the historical context is misleading—it implies that 2000 was an appropriate benchmark for estimating what reasonable personnel and healthcare spending should be—it's not.

Years of budget cutbacks led to a 13.5 percent pay gap, a 25 percent reduced retirement value for post-1986 entrants, a point where servicemembers were paying nearly 20 percent out-of-pocket for their housing costs, and beneficiaries over 65 were completely thrown out of the military health care system.

In the late 1990s, retention was on the ropes, and Congress was being asked to correct these problems to prevent a readiness crisis.

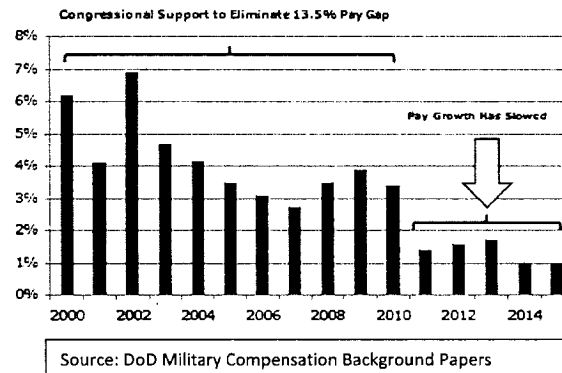
Congress did so over the next decade restoring military pay comparability (slide next page), repealing the retirement cuts, zeroing-out member out-of-pocket housing costs, and restoring promised health coverage for older retirees.⁷

⁵ <http://www.whitehouse.gov/omb/budget/historicals>.

⁶ Department of Defense. "United States Department of Defense Fiscal Year 2015 Budget Request Overview March 2014." <http://comptroller.defense.gov/Portals/45/Documents/defbudget/fy2015/fy2015-Budget-Request-Overview-Book.pdf>.

⁷ Department of Defense. "Military Compensation Background Papers (Seventh Edition)", page 38. <http://www.loc.gov/rr/frd/pdf-files/MilitaryComp-2011.pdf>.

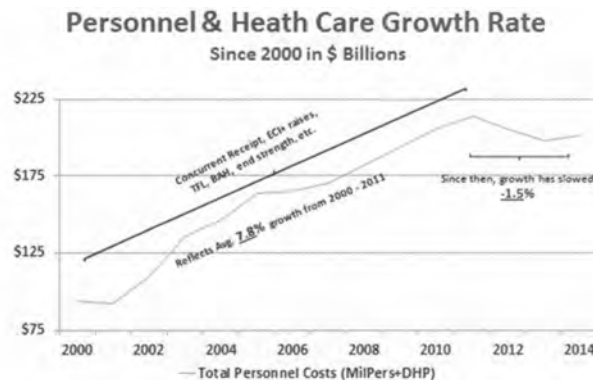
Military Pay Raises Since 2000



Cost growth since 2000–2001 was essential to keep the previous compensation cutbacks from breaking the career force.

Between 2000 and 2011, personnel and health care costs experience an average rate of growth of approximately 7.8 percent annually.

However, between 2011 and 2014, cost growth has slowed and actually declined at an average rate of minus 1.5 percent per year.



Source: OMB Historical Tables 3.2 and 16.1⁸

The rate of military personnel and health spending will only decline further in the out-years due to:

- Significant pharmacy copay increases which started last year (fiscal year 2013)
- Significant savings from requiring mandatory mail-order/military pharmacy refills of maintenance medications for Medicare-eligible beneficiaries starting this year
- Savings from tying annual adjustments for Prime and pharmacy to retiree's cost of living adjustment
- Savings associated with shrinking TRICARE Prime service areas
- Significant reductions to end strength
- Recent changes to the retirement system for new entrants (COLA -1 percent provision)

⁸ <http://www.whitehouse.gov/omb/budget/historicals>.

- Savings from sustaining pay with private sector pay growth (ECI) since 2011

MOAA believes the proposals in this year's defense budget are a huge step backwards repeating many of the same bad habits during past drawdowns—cutting end strength, capping pay, and attacking benefits—that led to the difficult retention times of the late 1990s.

Past experience of capping military raises below private sector pay growth has proven that once pay raise caps begin, they continue until they undermine retention and readiness—and this is the second year of proposed pay caps with a possibility of 4 more.

One pay cap is a data point, two is a line, and three is a trend. Six years of planned caps is definitely a bad trend and does not bode well for the currently serving.

This proposal is not limited to pay. This “quadruple whammy” of capping pay, increasing out-of-pocket expenses for housing, slashing commissary savings, and having military families pay more for their health care, would be major steps backward on the road towards repeating the insidious measures which led to retention and readiness problems in the past.

Each may seem small by themselves ... a pay cap of .8 percent. A 5 percent out-of-pocket housing cost. Copays for family off-post doctor visits. Reduced savings at the commissary.

However, the elimination of the \$1 billion subsidy for the commissary benefit itself will reduce the purchasing power of a military family of four by nearly \$3,000 annually.

When you add up the fiscal year 2014 and fiscal year 2015 pay caps, the proposed BAH reductions, the reductions in commissary savings, and the new TRICARE fee structure, an E-5's family of four would experience a loss of nearly \$5,000 in purchasing power annually; and an O-3's family of four would experience a loss of nearly \$6,000.

Annual Loss of Purchasing Power from FY 2015 budget proposals (Active Duty family of four with 10 years of service)		
	E-5	O-3
Loss of Basic Pay*	\$593	\$1,130
Basic Allowance for Housing	\$1,224	\$1,584
Commissary	\$2,970	\$2,970
TRICARE	\$206	\$206
Total annual loss	\$4,993	\$5,890

*FY 2014 and FY 2015 aggregate loss

These are very conservative projections seeing that it only includes 2 years of pay caps and the new TRICARE consolidation/fees will be very dependent on a military family's access to an MTF and special needs.

In several recent hearings, many Service and Pentagon leaders have stated troops are willing to accept the pay and benefit changes as long as they can get the training and equipment needed to do their jobs—feedback that is something we must question.

MOAA conducted a non-scientific survey in March and of over 4,700 currently serving who responded, over 65 percent were least satisfied with their basic pay.

Additionally, in a more recent survey conducted by the Washington Post and the Kaiser Family Foundation of post-September 11 veterans and currently serving members, 83 percent indicated they do not favor the Pentagon's fiscal year 2015 proposed reductions.⁹

TRICARE CONSOLIDATION

DOD again is proposing similar disproportionate pharmacy fee increases and a means-tested TFL enrollment fee as they did last year and in the past that thankfully Congress has rejected.

⁹The Washington Post. “After the Wars—Post-Kaiser survey of Afghanistan and Iraq war veterans.” Washington Post. <http://www.washingtonpost.com/politics/polling/wars-postkaiser-survey-afghanistan-iraq-war/2014/04/02/3e8f2380-b7a6-11e3-9eb3-c254bdb4414d—page.html>.

But it also includes a plan to consolidate the three major elements of TRICARE—Prime, standard, and extra—into what is being characterized as “streamlining” or “modernizing.”

In this proposal currently serving families and retirees will pay more and get less. It retains the TRICARE prime enrollment fee by relabeling it as a “participation” fee yet eliminates the one element that the enrollment fee assured ... guaranteed access standards.

But even more disconcerting is that the proposed change includes fees where fees never existed before and provides no discernable value. For the first time, this proposal would have working-age retirees paying to be seen in the military treatment facilities.

The Pentagon proposal will have military families paying more for their health care when they have limited or no access to military facilities.

MOAA wants to make one thing clear. The military TRICARE benefit is by and large an excellent one.

But it has to be, in order to induce large numbers of top-quality people to accept the extraordinary demands and sacrifices inherent in a multi-decade military career.

Military people already pay much steeper premiums for health coverage than any civilian ever has or ever will by serving at least 20 years in uniform—most of it paid in-kind, not in cash.

That’s why assertions that military retirees pay far less for their health care than civilians do are so aggravating to the military community.

Defense leaders say they’ll keep faith with the currently serving on retirement reform, and would apply changes only to new entrants.

But if it’s breaking faith to change the rules for someone with 10 years—or 1 year—of service, it’s doubly so to impose new fees on military families who don’t have access to the MTFs as well as imposing fees for use of the MTF on those who already completed 20 or 30, whether they’ll retire next year or are already retired.

We believe DOD must look at making the system much more efficient instead of simply shifting costs. For example, there’s still no single point of responsibility for budgeting or delivery of DOD health care.

We’ve accepted mail-order requirements in lieu of higher pharmacy copays and annual adjustments to pharmacy and Prime fees tied to retired pay cost of living adjustments.

All of these changes we accepted will save DOD billions in the coming years and has slowed the growth of health care costs.

Now we think it’s time to develop management efficiencies that won’t impact beneficiary fees, access to care, or delivery of quality care and simply shift more of DOD’s costs onto them.

SUMMARY

In closing, Secretary Hagel stated before the fiscal year 2015 budget release that, “Continuous piecemeal changes will only magnify uncertainty and doubts among our servicemembers about whether promised benefits will be there in the future.”¹⁰

We couldn’t agree more. Any changes to pay, compensation, and benefits, to include health care, should be looked at comprehensively—not in a piecemeal manner.

Since the congressionally-directed Military Compensation and Retirement Modernization Commission has been tasked to take a holistic and comprehensive look at the entire compensation package, and propose broader reform proposals next year, these piecemeal, budget-driven changes are even more inappropriate.

What’s needed is to sustain pay and benefits for the men and women in uniform and their families as well as those that have faithfully served 2 decades or more.

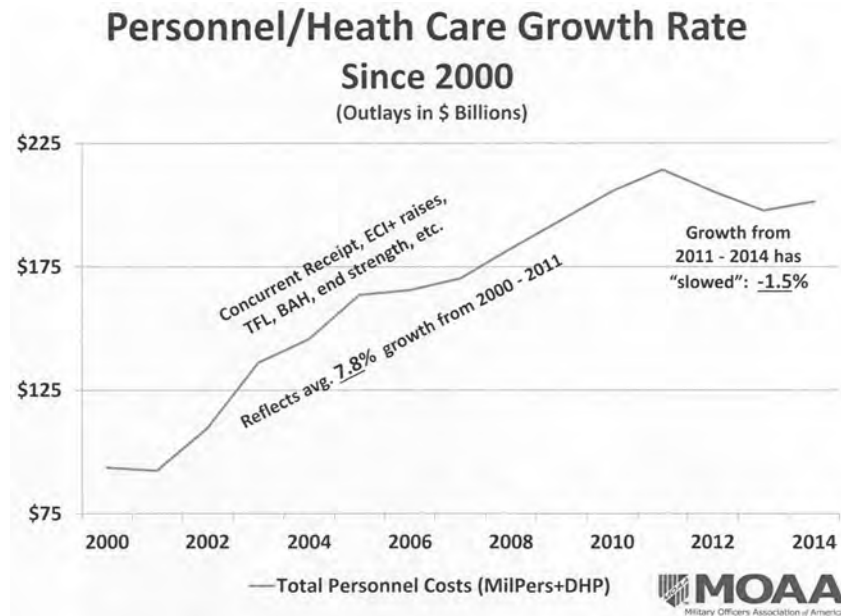
MOAA remains concerned that the Pentagon is heading down a previously taken path, repeating some of the very same mistakes that led to significant retention problems the Nation experienced by the late 1990s and undoing the needed compensation improvements Congress has made since 2000 to match the extraordinary demands and sacrifices of military service and a military career.

History shows comparability can’t work unless it’s sustained through both good and bad budget times. We are still a nation at war-capping pay and forcing troops and their families to pay more for their housing, health care, and groceries sends the wrong message.

The most important element of a strong national security is the sustainment of a dedicated, top-quality mid-level NCO and office force. These changes will signifi-

¹⁰Garamone, Jim. “DOD Takes Holistic View of Slowing Military Compensation Growth.” Defense.gov News Article: DOD Takes Holistic View of Slowing Military Compensation Growth.

cantly devalue the compensation and benefits needed to sustain those seasoned, trained, and talented troops and ultimately have a negative impact on recruiting, retention, and overall readiness.



Chairman LEVIN. Thank you so much, General.
General Sullivan.

STATEMENT OF GEN GORDON R. SULLIVAN, USA, RET., PRESIDENT AND CHIEF EXECUTIVE OFFICER, ASSOCIATION OF THE U.S. ARMY

General SULLIVAN. Mr. Chairman, Ranking Member Inhofe, honorable members of the committee, before I begin my formal remarks, I want to thank each of you for your personal support, certainly the three of you that I have in front of me right now who were here when I was battling times such as this back in the early 1990s. Senator Kaine, we appreciate your support now.

I want to note that during that time, for some reason we seemed to have more stability primarily due to the appropriations and authorization environment, which reflected regular order. I always felt as if you had an open ear for me when I came over to talk and give you a problem. Sometimes you at least believed me and gave me more money, if you had it and if you could get it. But you permitted us to navigate difficult terrain without a lot of constraints such as the chiefs have now. You set limits on funding and manpower and let us strike the balance as we saw fit and gave us the latitude to act. For that I thank you.

Senator Levin, I probably will not see you in this kind of a role again. I want to thank you publicly for everything that you have done for the Services and everything you have done for our country.

Chairman LEVIN. Thank you so much, General.

General SULLIVAN. Thanks for the opportunity to present the views of the Association of the U.S. Army (AUSA). This committee has, as I said, provided extraordinary support of our Active Duty, Guard, and Reserve, retired members, veterans of the Army and the other Services, their families and survivors. Your efforts are very positive and have impacted the lives of the entire uniformed services community.

We are keenly aware that Congress and the administration have had to make difficult choices while bolstering a weak economy and addressing budget deficits. While we recognize that debt reduction is a national priority, AUSA believes that a disproportionate share of this burden has fallen on DOD. Requiring that 50 percent of mandatory budget cuts come from defense, even though the defense budget is only 17 percent of the Federal budget, is in my view misguided and misdirected. How in such a dynamic and dangerous world can such a system be permitted to continue?

The result is that defense officials, most of the uniformed people involved, sat at this table just 15 minutes ago—is they are trying to find balance among readiness, training, education, operational activities, and modernization, as well as soldier and family program funding. Uncertain times are demanding agility and adaptability by these defense leaders here in Washington, as well as on the front lines wherever they may be. After all, look at what is happening now in Eastern Europe.

Yet, the funding policies in place that are guiding them are so rigid and so constraining and damaging to our long-term national security that continuing this formula for the better part of the next decade defies logic.

AUSA and its members urge Congress and our elected and appointed officials to eliminate sequestration or modify these unrealistically rigid budget control measures in ways which would enable responsible and accountable leaders to exercise their responsibilities in a manner that is consistent with the challenges we all face.

Now, providing for the common defense—and I do not have to tell you, but I need to say it for the record—is a shared responsibility among the American people, Congress, the President, those of us in uniform, and the citizens of the United States. Sometimes I often get the feeling that shared responsibility is a concept which has disappeared somewhere. Shared responsibility and accountability is what we are talking about here, and each one of these people who sat here is accountable to the American people. They are being asked to make major tradeoffs in a very constrained budget environment.

AUSA believes that the primary source of the budget challenges that face DOD is the devastating effect of sequestration and the provisions of the BCA of 2011.

The BBA of 2013 mitigated this, as one of the chiefs pointed out—I think it was the Chief of Staff of the Army, General Odierno—when he said he could buy back readiness because of the Murray-Ryan bill. However, the original sequestration cuts scheduled for 2016 through 2021 remain in effect and will exacerbate the situation that existed before the Murray-Ryan bill. You heard General Odierno say that he would see a diminution of readiness in

some of those units he brought back. It is having a profoundly adverse effect on the defense of this Nation and it will do so well into the next decade.

Over the last 2 years, sequestration has set America on a path to reduce military readiness and reduced ability to secure our national security. Sequestered budgets are rapidly shrinking our military forces to unacceptable levels, thereby creating unready forces. All of this while even a casual observer might suggest that the world is more dangerous today than it has been in recent years.

Sequestration has also reduced our military's war-winning capabilities to unacceptably low levels and it has created unnecessary divisiveness, acrimony, and tensions within the Armed Forces as they struggle to meet budget goals and juggle requirements around Active Duty, Guard, and Reserve. I believe we must enable all components of the Armed Forces to be adequately manned, trained, and equipped to focus on the mission and not fighting over an arbitrarily depressed defense budget.

One of the chiefs mentioned—there were a couple of them—that developing three POM alternatives in a year is really destabilizing both within DOD, and it ripples down to the field because the people at Fort Sill, Fort Benning, Fort Hood—they know when DOD is coming up with different alternatives for their particular units. It has created an atmosphere of desperation that leads to false arguments and false choices when it comes to compensation and benefits provided to all servicemembers and families who make up the All-Volunteer Force.

Sequestration, by the way, also affects the defense industrial base. Whether everybody understands that, that the industrial base today is much different than the industrial base which fueled World War II, the Korean War, and even the Vietnam war. The industrial base is much more sophisticated and diverse, and some of these weapons cannot be made overnight.

I believe the Services are being forced into a mobilization posture, whether by design or inadvertently. But if we become involved in any kind of a large-scale operation, we must turn inward to enhance ourselves or to grow ourselves. That is Active Duty, Guard, and Reserve. Interestingly enough, it took the Active Army multiple years to create the 4th Brigade or the 101st. It does not happen overnight, and there is this great myth, the great American myth, that you can just ring the bell on the village green, everybody shows up, and off we go. The world does not work quite like that anymore, if it ever worked that way.

We must rely on the force we have in being, the Active Duty, Guard, and Reserve, and we need a balanced force. Sequestration is throwing that necessary equilibrium out of whack.

Now, I would note interesting things were said this morning. General Dempsey said if the BCA kicks back in, it will cause unacceptable risk. Unacceptable risk he said. The Chief of Staff of the Army and Secretary of the Army John McHugh in their testimony last week said "risk" a number of times. Most significantly, the Chief of Staff of the Army said there could be serious risk to being able to perform his assigned missions in the war plan.

Gentlemen, this is a huge step, and I do not believe everybody is appreciating the implications when the Service Chiefs and the

Chairman of the Joint Chiefs says “unacceptable risk.” We have to pay attention to these words. They mean something, and they do not say these words lightly.

Not only is sequestration, being combined with the declining defense budget, having an adverse effect on military readiness, we are seeing an emergence of international doubt. You can see it on the covers of *The Economist* this week. We can see it in all of the national papers on whether the United States is a reliable ally and partner. I do not want to go into the politics of that. I do not intend to. But we must be seen as a credible ally and a dangerous enemy. Credibility in this context is found in the perception of strength and national resolve to be responsive to not only our treaty commitments but to our partners with balanced and ready forces.

Adversaries, by the way, are watching us also, and they could make miscalculations and so forth. A credibly sized force, not just a reasonably sized force, is what is necessary. We must maintain a viable All-Volunteer Force.

Despite extraordinary demands, men and women in uniform still answer the call, thanks in no small measure to the strong and consistent support of this committee, but this is only now at the cost of ever-increasing personal sacrifices.

Service personnel are now facing even greater uncertainties with their jobs, force reduction measures, and now compensation adjustments. No Federal obligation is more important than protecting national security. It is principle number one. We all know that. You know that, and I know that. The most important element in national security is sustainment of a top-quality career force backed by dedicated DOD civilians.

By the way, I served with General Tilelli for a number of years, and interestingly enough, we did not collaborate on what I am going to say now. I acknowledge the power of high tech equipment and new equipment. But I am convinced, after being in or around the Army for 60 years, that it is not equipment which wins wars. It is high-quality men and women, our most adaptive weapon system, our most loyal, and people who will never quit. If we can continue to recruit, train, and develop and retain these people, America will remain the world’s greatest power only so long as it fulfills its commitment to their training, their well-being, and their education. Our extraordinarily dedicated, top-quality, All-Volunteer Force is critical. You have consistently recognized the cost of sustaining this current military career incentive package is far more acceptable and affordable than any alternative.

Now, in the matter of compensation, AUSA does support the MCRMC. We do not want to see a return to the recent era of pay caps at this critical juncture, but it is imperative that funding be available for training and some modernization. Pay caps must not be permanent. Military pay comparability is important to the recruiting and retention of high-quality soldiers and will become more important in the future.

We are committed to military pay raises that match the ECI, but this year, because of sequestration, the funds freed up by a slightly smaller pay increase is the price that had to be paid for soldiers who are trained and ready. But I do believe that cuts to COLAs

must be reflective of decisions made each year based on the dynamics of the economy and the dynamics within DOD.

I want to end my testimony as I began it. Sequestration is patently unresponsive to needs of this Nation, which is part of a rapidly changing world which we cannot predict the future. We never could predict the future. People a lot smarter than me have said that, not the least of whom was the former Secretary of Defense Gates and Panetta. I mean, countless people. We all know it. It creates a paradox in my mind in which this Nation is locked into a creaky, slow-moving, lockstep budget process that is irresponsible and unaccountable. No one seems to be accountable.

Sometimes it is like people do not listen. The Chairman of the Joint Chiefs of Staff said unacceptable risk. The Chief of Staff of the Army says he is at risk of performing the mission, his battlefield mission. Those are serious pronouncements.

Sequestration profoundly affects all parts of the national security community, the Department of State, the Central Intelligence Agency, National Security Agency, Department of Veterans Affairs, and parts of the Department of Energy which are included in that particular budget line. The impact on our national security writ large must be considered.

I urge you to pursue some kind of a modification of this budget device which is being used so that we can get back to full order so that we can have a dialogue like we are having here today and appropriate decisions can be made based on the needs of our Nation for our security and our national defense.

Thank you very much for your patience while I went through that. We at AUSA appreciate anything you can do to get rid of the burdensome sequestration. There has to be a better way.

[The prepared statement of General Sullivan follows:]

PREPARED STATEMENT BY GEN GORDON R. SULLIVAN, USA (RETIRED)

Mr. Chairman and Ranking Member Inhofe: Thank you for the opportunity to present the views of the Association of the U.S. Army (AUSA) concerning issues relating to the Army and its soldiers and families. This committee has provided extraordinary support of our Active Duty, Guard, Reserve, retired members, and veterans of the uniformed services, their families and their survivors and its efforts have had an enormously positive impact in the lives of the entire uniformed services community.

AUSA is keenly aware that Congress has had to make difficult choices while bolstering a weak economy and addressing budget deficits. While we recognize that debt reduction is a national priority, AUSA believes that a disproportionate share of this burden has fallen on the Defense Department.

Requiring that 50 percent of mandatory budget cuts come from defense—even though the defense budget is only 17 percent of the Federal budget—is patently misguided. How in such a dynamic and dangerous world can we be so shortsighted?

The result is that defense officials now face a no-win situation. They can fund readiness, training, education, operational activities, and some modernization but doing so requires cutting soldier and family program funding. Continuing this formula for the better part of the next decade defies logic. Uncertain times demand agility and adaptability—look at what has suddenly occurred in Eastern Europe.

AUSA and its members urge that Congress and our elected and appointed officials eliminate sequestration or modify these unrealistically rigid budget control measures in ways which would enable responsible and accountable leaders to exercise their responsibilities in a manner that is consistent with the challenges they face.

“Providing for the Common Defense” is a shared responsibility among the American people, Congress, the President, and the Army. We have lost that sense of shared responsibility because of the mindless, automatic and arbitrary cuts that sequestration brings.

Military leaders in order to properly execute their national security mission need authorization authority and appropriations to be completed on time and with regular order. Operating under a series of continuing resolutions limits the capability to properly plan and execute a budget.

SEQUESTRATION

AUSA believes that the primary source of the budget challenges that face the Department of Defense (DOD) is the devastating effect of the sequestration provision of the Budget Control Act of 2011.

The Bipartisan Budget Act of 2013 mitigated the sequestration spending cuts for fiscal year 2014 and 2015. However, the original sequestration cuts scheduled for fiscal year 2016 thru 2021 remain in effect and will exacerbate the situation by continuing to place national security at risk.

Sequestration is having a profoundly adverse effect on the defense of the Nation—and it will do so well into the next decade.

Over the past 2 years sequestration has:

- Set America on a path to reduced military readiness and national security. Sequestered budgets are rapidly shrinking the Nation's military forces to unprecedented and even unacceptable levels thereby creating unready forces unable to accomplish the tasks assigned by the defense strategy. All of this while the world security environment is becoming increasingly uncertain and dangerous.
- Reduced the military's war-winning capabilities to unacceptably low levels, and has created unnecessary divisiveness, acrimony, and demonization within the Armed Forces between servicemembers and leaders who just months ago were serving side by side in combat. We must enable all components of the Armed Forces to be adequately manned, trained, and equipped to focus on the mission—and not on fighting over an arbitrarily depressed defense budget.
- Created an atmosphere of fiscal desperation that leads to false arguments and false choices when it comes to the compensation and benefits provided to the servicemembers and families who make up the All-Volunteer Force.

MOBILIZATION AND THE DEFENSE INDUSTRIAL BASE

Whether by design or inadvertently, sequestration has forced our Armed Forces back into a mobilization posture. Many who refuse to acknowledge that the United States might again become involved in a large land operation have set us on a path where a too-small Active component force can just be reinforced when needed by a mobilized Reserve contingent or by simply recruiting more soldiers (as the likelihood of a return to the draft is remote).

GEN George Marshall in 1956 said that "... the hardest thing in the world to train is a ground army". Marshall had it right some 60 years ago when he concluded that the complexity of land conflict (more so in today's unstable security environment) requires our land forces to maintain "a very high state of training, higher than that of any other force that I know of." George Marshall knew what he was talking about.

Unfortunately, recent history has shown us that it takes the U.S. Army as much as 3 years to organize, train, and equip a newly formed brigade combat team—that's not rapid enough in today's security environment where crises like the Crimea can emerge in literally days (think Korea in June 1950 and even today) and linger for years as in Syria. The myth of small to big in short order is just that—a myth.

So, we must rely entirely on the force we have in being—Active, Guard, and Reserve. But with the effects of sequestration steadily decreasing the size and readiness of our military, the depth of the force and its ability to mobilize is being severely degraded.

What is needed is a balanced force—balanced among land, air, maritime, space, cyber, and Special Forces. Balance is also required between Active and Reserve Forces. Equally important is the balance between mission readiness and soldier and family programs. But sequestration is throwing that necessary balance out of whack, especially with land forces, and is creating risky, even dangerous vulnerabilities.

Likewise, sequestration is having a devastating effect on the defense industrial base. In both DOD's own organic industrial base and the commercial industrial base, sequestration cuts are putting our ability to equip a mobilized force when it is needed at growing risk. I am alarmed that there is a gross lack of awareness among national leaders how dire this situation is becoming. Only legislative relief from sequestration can rectify this.

A CRISIS OF CREDIBILITY

Not only is sequestration and a declining defense budget having an adverse effect on military readiness, we are also seeing an emergence of international doubt as to the credibility of the United States as a reliable ally and partner. I am convinced we must be seen as a credible ally. Credibility in this context is found in the perception of strength and national resolve to be responsive to our treaty commitments with balanced, trained, and ready forces.

Similarly, adversaries are most certainly watching the steady decline of American military power and could take more and more risk to challenge U.S. leadership. Moreover, the decline in U.S. military strength can lead to strategic miscalculation by potential adversaries. A credibly sized force—not just a reasonably sized force—provides a deterrent effect that is withering under the constraints of sequestration.

VIABILITY OF THE ALL-VOLUNTEER FORCE

Sequestration has created a perception that the troops “cost too much” and are to blame for our growing military unreadiness. The facts do not bear this out and the troops know it. But it has sown a growing distrust among servicemembers who are increasingly and unfairly portrayed as an entitlement special interest group.

The past 12 years of unprecedented demands and sacrifices highlight how radically different military service conditions are from civilian life. Decades of dire predictions about “unaffordable” personnel costs have proved consistently wrong. Yet budget critics persist in asserting military pay, retirement, and health care benefits are unsustainable and should be slashed to resemble civilian benefit packages.

Existing career incentives have sustained a strong national defense through more severe and protracted wartime conditions than even the strongest volunteer-force proponents thought it could survive.

Despite extraordinary demands, men and women in uniform are still answering the call—thanks in no small measure to the committee’s strong and consistent support—but only at the cost of ever-increasing personal sacrifices.

Service personnel are now facing even greater uncertainties with force reduction measures and pay caps. No Federal obligation is more important than protecting national security. The most important element of national security is sustenance of a top-quality career military force backed by dedicated DOD civilians.

America will remain the world’s greatest power only so long as it continues to fulfill its reciprocal obligation to the only weapon system that has never let our country down—our extraordinarily dedicated, top-quality, All-Volunteer career force.

Congress has consistently recognized that the cost of sustaining the current military career incentive package is far more acceptable and affordable than the alternative.

COMPENSATION AND BENEFITS

In the matter of compensation, AUSA supports the establishment of the Military Compensation and Retirement Modernization Commission. The members of that body are fully capable of recognizing the unique contributions and sacrifices required by military service when they consider changes to military compensation and the retirement system. AUSA expects that any changes made must and will take into account the services’ need to compete for talent in the labor market.

AUSA does not want to see a return to the recent era of significant pay gaps, at this critical juncture in the life of the Army and DOD. It is imperative that funding be available for training and maintaining a ready national defense force. The capability to accomplish the mission is of paramount importance.

Pay caps must not be permanent. Military pay comparability is important to the recruiting and retention of high-quality soldiers and will become more so as the economy rights itself. AUSA is committed to military pay raises that match the Employment Cost Index, but this year because of sequestration, the funds freed by a slightly smaller pay increase is the price that must be paid to have soldiers who are trained and ready. However, Congress must ensure that this type of budgeting does not become routine as it will have long-term detrimental effects on the All-Volunteer Force.

In the matter of Military Compensation and Retirement Reform, AUSA believes that any permanent changes in the military compensation and retirement system should be withheld pending the report of the Military Compensation and Retirement Modernization Commission and not be made piecemeal. Further, any changes to retirement benefits must apply only to those who volunteer after the changes are implemented. Grandfathering of the currently serving force and current retirees is imperative. Finally, any change must recognize the unique and extraordinary demands

and sacrifices that military service requires. The profession of arms is not equivalent to a civilian job.

SEQUESTRATION

I end my testimony as I began it.

Sequestration is a disruptive piece of legislation indicative of a government seemingly unable to function as a responsible democracy. Furthermore, sequestration is patently unresponsive to the needs of a nation that is part of a rapidly changing world in which we cannot predict the future. It creates a paradox in which the Nation is locked into a creaky, slow moving, lockstep budget process that is irresponsible and unaccountable and ignores the world around it, while its defense forces must be flexible and agile.

Further, sequestration profoundly affects all parts of the national security umbrella—the Department of State, Central Intelligence Agency, National Security Agency, Department of Veterans Affairs, and parts of the Department of Energy budgets. Its impact on national security writ large must be considered.

Members of the committee, as you pursue your duties related to the personnel issues of DOD, I urge you to get at the root cause of the budgetary problems consuming DOD and end sequestration permanently before more damage is done and before we are left with an inadequate national defense force in 2021.

Thank you again for your support of the uniformed services and for considering this testimony of the Association of the U.S. Army.

Chairman LEVIN. Thank you, General Sullivan.

Admiral Totushek, we are going to have to leave here in about 15 minutes. We will have to leave a few minutes before 1 p.m. We want to leave some time for questions. If you can adjust accordingly, that would be great. We do not want to cut you short.

STATEMENT OF VADM JOHN B. TOTUSHEK, USN, RET. EXECUTIVE DIRECTOR, ASSOCIATION OF THE U.S. NAVY

Admiral TOTUSHEK. I will endeavor to do that, Chairman Levin. Thank you very much. Ranking Member Inhofe, members of the committee, it is always a pleasure to be with you, and I thank you for your service to our country and the things you have done for our men and women in the military.

I will cut through part of this, just to highlight a few things.

The first is that we basically heard a lot of people say today that cuts will not harm the quality of life for our Navy families, but I would say that all aspects of compensation, not just pay, are part of what they look at as their pay. It is going to definitely impact decisions they make when they are out there trying to live their lives, especially things like BAH that are reductions in what they take home each month to be able to pay their bills.

We basically are the voice of sailors at AUSN, and we did a recent study asking some people to tell us what they thought about these impending kinds of changes that DOD has proposed. Ninety percent of them did not like what is being proposed, a little bit contrary to what I think the chiefs are hearing when they go out there. By the way, we do not envy the chiefs—the position they are in to try to make this balance that is typical of the tough choices they are trying to make today. It is just that we think there is a bigger impact to our force than they are seeing when they go out and hold their all-hands calls.

One sailor said the cost of living has not gone down in our area. Yet, DOD has made a decision to knock down the BAH for Hampton Roads.

Another one said I think that DOD is breaking faith with what we signed up for. Things are going backwards.

Now, you may have seen today that the Web site *military.com* had a survey that said the same thing ours said. 90 percent of those surveys—and they surveyed 8,400 Service people—do not like the proposed cuts. What the Chiefs are hearing when they go talk maybe is not the real thing that is going on.

I would tell you also that the sequestration, as General Sullivan says, makes big impacts to our readiness, to our force structure, and to our training, but it also has an impact on Navy families because the CNO said we are now forced into longer cruises and when we retain people, we do not retain just that service person. We retain the family. The families will vote with their feet. I believe that the committee does not need to be reminded of that fact.

I will cut to the chase so that my colleague to my left has a couple of moments to spend. But I would tell you that for the last 30 years, the cost of personnel in the military has remained constant at 30 percent to 33 percent. The President's budget for 2014 is 33 percent. To say that these compensation percentages are higher, you have to be including some things that military compensation does not include like the civilians or something else is in those numbers that you heard from the Service Chiefs today.

In summary, we think that really the biggest factor today that is keeping people in the military is the poor jobs market on the outside. When you couple these kinds of changes with that, we are actually going to see people walking with their feet despite what the chiefs are hearing.

With that, thank you very much for your attention, and I look forward to your questions.

[The prepared statement of Admiral Totushek follows:]

PREPARED STATEMENT BY VADM JOHN B. TOTUSHEK, USN (RET)

SUMMARY

Chairmen Levin, Ranking Member Inhofe, and members of the Senate Armed Services Committee, the Association of the U.S. Navy (AUSN) thanks you and your Committee for the work that you do in support of our Navy, veterans, retirees, and their families. Your efforts have allowed significant progress in creating legislation, through 50 plus years of consecutive National Defense Authorization Acts (NDAA), that has left a positive impact on our Navy and military community.

On 4 March 2014, the administration sent to Congress the President's budget (PB) request for fiscal year 2015. The PB requests a total of \$495.6 billion for the Department of Defense (DOD) budget, about \$31 billion less than fiscal year 2014 requested levels. Despite some programs seeing positive steps forward, there are significant 'cost saving' measures being proposed which could impact overall morale, recruitment, retention and readiness in the military. Of particular concern are proposals within DOD's budget to reduce military pay raises, lower Commissary subsidies, reduce the Basic Allowance for Housing (BAH) and merge three different TRICARE plans: Prime, Standard and Extra into one Consolidated TRICARE Health plan, while instituting TRICARE for Life (TFL) enrollment fees and increasing pharmacy copays. All of these changes are being proposed before the Military Compensation and Retirement Modernization Commission (MCRMC), mandated by Congress in the NDAA for Fiscal Year 2013, which has finished its work and should come up with its final report in February 2015.

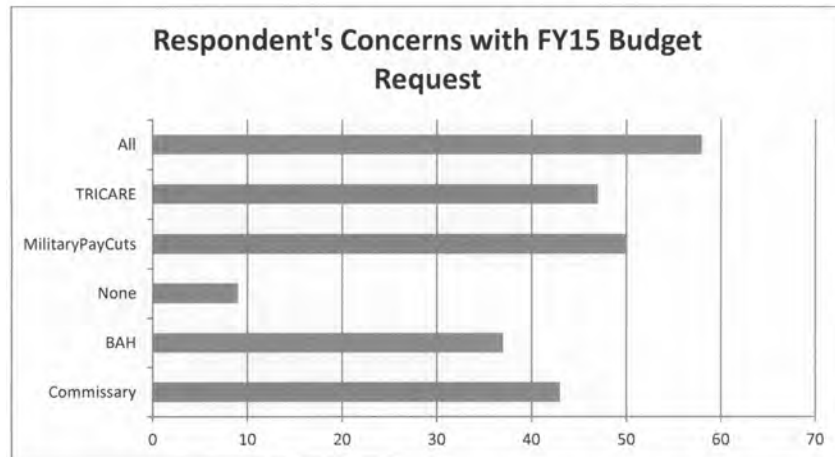
The 6 percent reduction in BAH will result in higher out-of-pocket costs for those servicemembers living off base. Base barracks are not built to accommodate 100 percent of the servicemembers stationed there, so this will undoubtedly affect many sailors. The housing allowance is calculated based on the average cost-of-housing for the area and is meant to provide servicemembers with the ability to live in satisfactory accommodations. The proposed budget also puts the base pay cap below private sector pay growth determined by the Employment Cost Index (ECI), with an increase of 1 percent rather than 1.8 percent. This is the second year that DOD has

tried to cap the pay increase at 1 percent. Before last year, servicemembers' last three pay increases averaged at 1.4 percent, and the NDAA for Fiscal Year 2014 pay increase was the smallest in almost 50 years. In addition, the proposed reduction in savings at the Commissary would result in a roughly 20 percent price spike. The PB also plans for TRICARE pharmacy copay increases and the establishment of enrollment fees, while also creating a consolidated TRICARE plan, eliminating the managed care option and leaving only a fee-for-service option for retirees and families.

We have heard DOD officials say that the cuts will not harm quality of life; however, there is no doubt that it will have a substantial effect on purchasing power and affect day-to-day financial decisions. For instance, the total loss in purchasing power for an Active Duty E-5 family of four would be \$4,993 per year based on the proposed changes to TRICARE, BAH, pay raise cuts and Commissary savings put together. For an Active Duty O-3 family, the total loss of purchasing power would be \$5,890. There are some who justify these cuts by saying military compensation is already very generous, but that's not necessarily true. Military compensation is fair and carefully constructed to sustain the stability of the all-volunteer force. AUSN shares the concern, along with many lawmakers, that these cuts will end up being a disincentive to serve. As the "Voice for America's Sailors," AUSN has always been a people first association, since it is our servicemembers, Veterans and retirees who help/helped make our Navy the finest force in the world. The readiness of our Navy follows in importance since our sailors need the training, resources, and modern equipment to carry out its mission.

AUSN Questionnaire of Active Duty, Reserve, Veteran and Retirees on Fiscal Year 2015 Proposals

In order to better understand the concerns of the military and Navy community, beginning in mid-April, AUSN conducted a questionnaire of a couple hundred of our members who also passed along to friends and shipmates to hear how they were impacted or not impacted by the proposals being vetted in regards to military compensation and benefits. Overall, with results compiled on 28 April 2014, of the over 100 participants in the poll, 59 percent of respondents were Veterans/Retirees and 41 percent were Active Duty. Respondents were asked, "In the fiscal year 2015 PB request, I am most concerned with ..." and had the choice of Military Pay Raise Cut, BAH Reductions, TRICARE Proposals, Commissary, None or All of the proposals. Comments were also submitted whereby one Active Duty sailor stated, "I understand the need to tighten our belts, but [military personnel accounts] are not the places to do it," whereby another Active Duty sailor stated, "Enlisted are already severely underpaid. Taking away more of their pay would be detrimental to morale." An additional comment came from one Active Duty sailor who said that, "The cost of living has not gone down in our area, yet [DOD] has made the decision to knock down the BAH for Hampton Roads, VA!" A Navy Veteran commented, "I appreciate the opportunity to have my input considered. DOD is breaking faith with all of us who serve/served faithfully, and I consider these proposals will negatively affect retention and recruiting." Another Navy veteran stated in his submission, "While good equipment is important, it seems that the DOD has misplaced their priorities and are not taking care of the troops." The final compiled results showed that ALL of the proposals had a majority of concerns with TRICARE, with the military pay raise cuts following behind.



Source: AUSN Legislative Questionnaire results of amount of polled individuals, impacted by category.
 [DISCLAIMER: Compiled by website visitors, where each respondent could select multiple subject areas of impact, and may not be a 'properly scientific poll,' but represents good dialogue on the subject]

Before going into detail on the Military Compensation fiscal year 2015 budget proposals, we'd like to take the time to discuss a few pending concerns which are driving many of the proposals coming out of DOD. Most notably we will address sequestration and ask ourselves: is the current military compensation and benefits system truly unsustainable as many DOD officials claim, and haven't we seen the mistakes of drastic changes before?

SEQUESTRATION IMPACT

The national security environment we face today is as perilous as any in recent memory. Over the past several years, our defense budget has been struck time after time with reductions. The Budget Control Act (BCA) of 2011 started a \$487 billion loss in the defense budget, and now we are at even greater risk threatened by a sequestration law cutting another \$500 billion over the next decade.

We were told sequestration would never happen. But here we are in year two facing the blunt and irresponsible approach to taming our annual deficits and reining in the enormous debt we and future generations face. Despite sequestration being 'held at bay' for now due to the Bipartisan Budget Act (BBA) of 2013 agreement, the ongoing threat of it returning for fiscal year 2016 continues to have looming consequences that must be paid attention to.

Under sequestration, defense, which accounts for less than 15 percent of the budget, is forced to take 50 percent of sequester cuts. It is disproportionate by any measure of understanding and incredibly detrimental to our national security. The results of these cuts have already been devastating to our national security, with our Navy alone at a historic low level of ships, facing worse than pre-World War II levels, should sequestration persist.

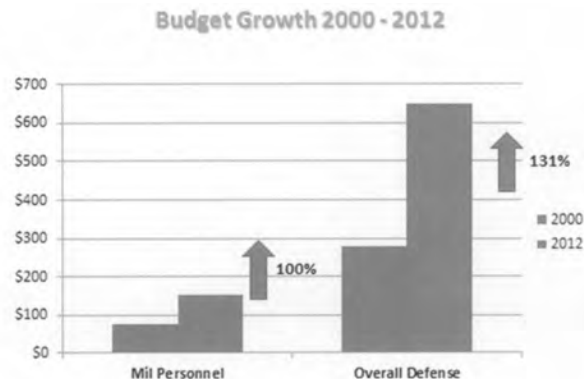
The readiness impact of sequestration not only threatens our military and forward presence but also has a significant impact upon the Navy family. For instance, the recent announcement in the fiscal year 2015 PB to defer the decision on whether or not to early retire the USS George Washington (CVN-73) in fiscal year 2016 has dire consequences for our fleet's capabilities. Scheduled to undergo Refueling and Complex Overhaul (RCOH), this vital but costly regularly scheduled carrier maintenance, threatens to reduce the fleet of Carrier Strike Groups (CSGs) from 11 to 10 and with any further delays of the *Ford*-class aircraft carrier, potentially down to nine. What is missing from this discussion to the effect on our national security that this has is the impact upon our military families, as we have seen with other RCOH delays of carriers. Delays and reduction in ships means longer deployments for other CSGs and, consequently, more time our sailors are away from their families, impacting overall morale of our Navy community.

In addition, DOD recently released an April 2014 report titled “Impacts of Sequestration Level Funding” which noted not only the RCOH concerns with CVN-73 but also the Navy consequently having eight fewer ships procured throughout the remainder of the Future Years Defense Program (FYDP). Three fewer Arleigh Burke Class destroyers (DDGs) would be procured from fiscal year 2017 through fiscal year 2019, resulting in a smaller and less capable surface combatant force. Sequester level funding would also result in the fiscal year 2016 *Virginia*-class submarine procurement to be unaffordable and prolong the period where the force is below the desired level of fast attack submarines by 4 years. The Navy would also delay six P-8A “Poseidon” aircraft until fiscal year 2020, substantially increasing per unit costs, and would procure two fewer F-35C variants in fiscal year 2016. The entire Armed Services would also lose more than 530 Advanced Medium-Range Air-to-Air Missiles, and the Tomahawk Cruise Missile program would be eliminated. Perhaps the largest impact would be to the Operation and Maintenance (O&M) accounts, which include installation services and service readiness, which could be reduced by \$40 billion over the course of the FYDP. Not funding Navy O&M accounts severely limits force structure, readiness and capability.

AUSN insists Congress eliminate sequestration and fund our military to levels that enable all components of the Armed Forces to be adequately manned, trained and equipped to focus on the mission— and not on fighting over an arbitrarily depressed defense budget. While debt reduction is a national priority, we believe that such a disproportional share of this burden must not be imposed upon DOD and especially on the backs of military members and families who already have sacrificed more for their country than any other segment of Americans.

SLOWING THE GROWTH? (IS IT REALLY THAT BAD? ARE WE REPEATING PAST MISTAKES?)

Today sequestration is still the ‘law of the land’ and continues to impact the decisions made regarding cost savings within DOD, particularly when it comes to military compensation and benefits. We have faced similar budget scrutiny before, and the impact upon our military had significant consequences. AUSN is concerned that attempts to change compensation and retirement will cause the same negative effects that have been seen in the past. Military compensation and benefit changes, like our overall military readiness, should not be so heavily budget driven but rather should reflect strategy and modernizing for a 21st century force. Recent military compensation studies within DOD have leaped to the erroneous conclusion that the cost trends of the last decade will continue indefinitely. This is not so. Yet, Pentagon leadership continues to focus on “recent growth trajectory.” For example, the military personnel account, according to Office of Management and Budget’s (OMB) historical table 3.2, has doubled between 2000 and 2012, from \$76 billion to \$152 billion. What the Pentagon doesn’t advertise is that the overall defense budget grew over the same period from \$281 billion to \$651 billion, a 131 percent increase. This alone shows personnel costs are consuming a smaller share of the budget. So if any costs are “spiraling out of control,” they’re not personnel costs.



Source: TMC Testimony to HASC- Military Personnel Subcommittee, April 2014

While AUSN supports responsible spending in defense, past attempts to alter military compensation and retirement benefits have had significant negative impacts. For example, the REDUX program in the 1980s comes to mind, which was cancelled in 1999, when its attempts to reduce 20-year retirement benefits by 25 percent caused drops in retention and readiness levels.

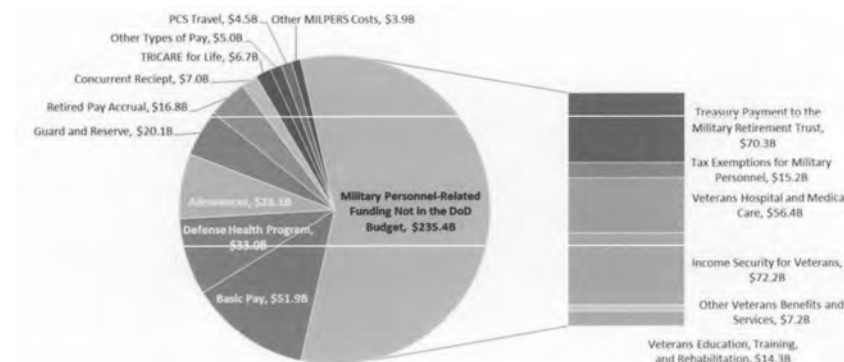
The REDUX system, enacted in 1986, was applied to service entrants on or after 1 August 1986. It provided 2.5 percent times high-36-month basic pay per year of service, except that 1 percent was subtracted for each year of service less than 30 (e.g., 40 percent of high 36-months basic pay after 20 years of service). Furthermore, REDUX retiree Cost-of-Living Adjustments (COLAs) adjusted annually at a rate 1 percent less than the Consumer Price Index (CPI); (CPI-1). Under the REDUX law, retired pay was recomputed on a one-time basis when the retired member attains age 62. At that point, retired pay was recalculated to the amount that would have been payable under the high 36-month average system. After age 62, CPI-1 COLAs continued for life. The REDUX system further reduced lifetime retired pay value by up to 27 percent!

Congress repealed REDUX as the default system for post-1986 entrants in 2000, after the Joint Chiefs of Staff (JCS) complained that it was undermining career retention and readiness. At the time, the REDUX system was the most frequently mentioned reason for leaving Service among separating personnel.

Under current law, the high 36-month retired pay system is the default option, but servicemembers have the option at the 15-year point of electing the REDUX option in return for a one-time \$30,000 taxable career retention bonus. Only a minority of servicemembers choose this option, and AUSN, as well as our counterparts, believe strongly that accepting this option is a very unwise decision.

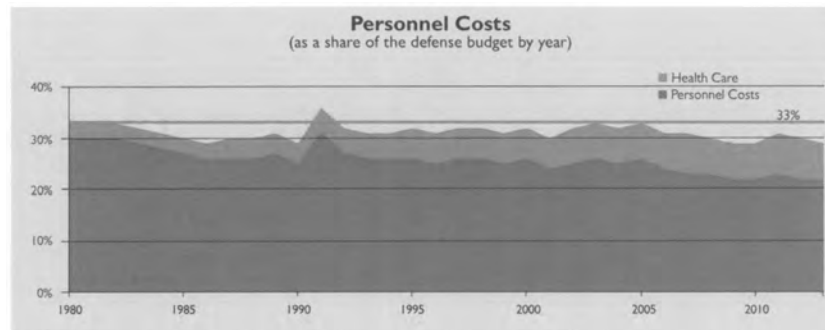
Additionally, past attempts at military pay caps have caused significant problems. A series of annual pay raise caps in the 1970s led to major negative impacts on retention and necessitated a pair of large “catch up” raises in 1981 and 1982. The same problem occurred again in the 1980s and 1990s, with pay caps contributing to an eventual peak “pay comparability gap” of 13.5 percent below the private sector.

There have been three areas where DOD has stated that Military Compensation and Benefits are becoming “unsustainable” and urged a need to “slow the growth,” regarding “spiraling” compensation and benefit costs. Those areas are pay, healthcare and retirement. All three areas are vitally important to the recruitment and retention of our All-Volunteer Force, and all three are areas that DOD constantly sends proposals to change in each of the President’s Budgets. Personnel and healthcare costs have represented the same share of the defense budget, about a third, which they have for the last 30 years, indicating that these costs are not spiraling out of control as DOD has claimed. In fact, looking at last year’s fiscal year 2014 budget alone, as requested in the PB request, there was \$412 billion allocated for total Military Personnel Costs, less than half of which is actually in the DOD budget. That means, of the PB requested \$526.6 billion for the base budget of DOD, only \$176.6 billion, about a third, is dedicated to ALL Military Personnel Costs for DOD, which, again, is about the same share of the DOD budget for the past 30 years. Hardly “unsustainable.”



Source: Center for Strategic and Budgetary Assessments

Our successful all volunteer-force has been accomplished with the same portion of the DOD budget being allocated for human resources as there has been for the last 30 years. Less than one-third, of the total DOD budget goes towards pay, healthcare, retirement and other compensation, so, again, these are exaggerated claims that military compensation programs are the most impactful financial issue.



Source: MOAA 2013 Report titled, "A Bargain, Not a Liability"

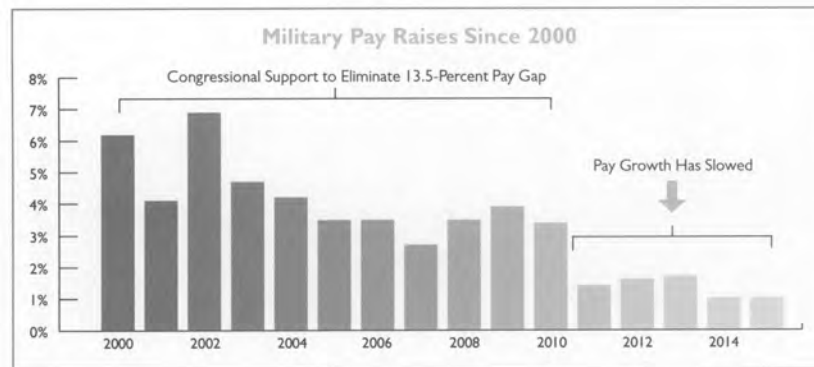
Thus, if we continue to let budget drive the conversation, like REDUX did, then we risk consequences of adopting many of the proposals within the fiscal year 2015 budget request as noted below which may be detrimental to our military's most important asset, our people.

MILITARY COMPENSATION PROPOSALS IN FISCAL YEAR 2015 PRESIDENT'S BUDGET

Military Pay Proposals in Fiscal Year 2015 Budget

Military pay is meant to offset the massive personal cost that accompanies a servicemember's career. In exchange for their pay, members of the military not only serve in foreign and often dangerous locations but also accept abridgments of speech and organizational rights enjoyed by those they protect. Military pay is a huge motivating factor in attracting new recruits as well who are willing to make these sacrifices as part of joining the all-volunteer force. Pay comparability is also one of the most important factors in maintaining stable retention. All of this has been accomplished with the same portion of the DOD budget being allocated for military compensation as there has been for the last 30 years. AUSN is very concerned that many in the administration, and some Members of Congress, are unaware of the history of compensation changes and their unforeseen outcomes. Moreover, we are alarmed that some view these vital compensation programs as a source of budget savings without regard to the impact they may have on long term readiness, but most importantly, the livelihoods of the All-Volunteer Force.

The historical context of military pay provides ample evidence that capping military raises is an exceptionally slippery slope which has never ended well with past attempts at military pay caps causing significant problems. A series of annual pay raise caps in the 1970s led to major negative impacts on retention and necessitated a pair of large "catch up" raises in both 1981 and 1982. The same problem occurred again in the 1980s and 1990s, with pay caps contributing to an eventual peak "pay comparability gap" of 13.5 percent below the private sector. To correct this, Congress has made great strides to restore military pay comparability over the past 13 years. In 2003, for the NDAA for Fiscal Year 2004, Congress tied the basis of pay increases for military personnel to be equal to the Department of Labor's ECI, so that increases in military pay matched the bare minimum increases that civilians in the private sector received. Congress has even had the ability to enact raises that exceed these ECI percentages, as they did for 2008 and 2009 (see chart on following page for recent increase in pay raises).



Source: MOAA 2014 Report titled, "Slow the Growth? — That Train Has Left the Station"

Through these measures, the pay gap was closed, and servicemembers were compensated at a fair rate equal to those in the civilian sector. However, now that erosion of pay and associated retention-related problems have abated, there are renewed calls to cut back on military raises, to either create a new comparability standard or substitute more bonuses for pay raises in the interests of deficit reduction. For Congress to override the statutory linkage that they themselves have passed does not bode well for our men and women in uniform, especially in the midst of an on-going conflict. History shows that, once military pay raise caps are implemented, the tendency has been by Congress to continue them until retention problems arise, which then have to be addressed through significant pay raise plus-ups. AUSN believes such proposals are exceptionally short-sighted in light of the extensive negative experiences we have had with military pay raise caps. The whole purpose of sustaining pay comparability through both good times and bad is to prevent significant fluctuations in retention and readiness; to avoid going through an endless cycle of causing problems and then repairing them.

A 2010 Congressional Budget Office (CBO) report asserted that, considering adjustments in housing allowances, many military people were actually paid more than their civilian counterparts in terms of Regular Military Compensation (RMC), composed of basic pay, food and housing allowances and the tax advantage that accrues because the allowances are tax-free. Developed in the 1960s when all servicemembers received the same allowances, regardless of location, and the allowances were arbitrarily established, the RMC was an inaccurate calculation of servicemember compensation. Since the 1960s, Congress has transformed the allowances into reimbursements for actual food costs and for median locality-based housing costs. Consequently, AUSN believes the CBO's assertions to be fundamentally flawed and that Congress would have a hard time explaining to troops why their pay raises should be reduced because their taxes are rising. However, in 2013, the PB request for fiscal year 2014 established the 1 percent smaller pay raise, instead of the 1.8 percent dictated by the current ECI, which affected a total of 2.2 million Active Duty and Reserve component members in order to save DOD \$536 million, a small cut in a \$526.6 billion budget. AUSN was then exceptionally disappointed that Congress agreed to that cap on Active Duty pay raises, as this sends the wrong message to our servicemembers saying in order to save a small amount of money, we are cutting your pay raise mandated by current law by almost half. DOD continues to claim it would save over \$3.5 billion if pay increases were reduced at this rate in future years. Yet, as previously mentioned, personnel costs have represented the same share of the defense budget, about a third, for the last 30 years, indicating that these costs were not spiraling out of control as DOD claims.

Furthermore, a 1 percent boost in military pay would continue to be, as it was for fiscal year 2014, the lowest pay increase since 1963, when no pay raise was authorized. This would represent a historically significant reduction, as well as explicitly increasing the pay of servicemembers less than the bare minimum that a similarly-employed civilian would receive (which, in all honesty, both career paths cannot and should not be compared). These actions are of significant concern, since annual pay increases are not just raises or bonuses for servicemembers but vital adjustments that are counted on by military families as part of military service. For

example, an E-5 Active Duty family of four stands to lose a total of \$593, and an O-3 Active Duty family of four stands to lose a total of \$1,130 aggregate loss for fiscal year 2014/fiscal year 2015 in military pay. AUSN advocates for the specified 1.8 percent increase as determined by the ECI for the current NDAA for Fiscal Year 2015 to ensure that servicemembers receive a fair increase. AUSN encourages DOD and Congress to adhere to this standard of pay increases. As past experiences have shown, pay raise caps tend to cause major problems in exchange for minor short-term savings, which are then undone when larger adjustments must be made to make up for the caps. If pay raise caps are instituted again by the administration, ignoring current law from the NDAA for Fiscal Year 2004, we will likely see retention problems reemerge in exchange for an extremely small cost reduction. In short, pay raise caps are not worth the negative consequences, and therefore, AUSN strongly encourages Congress not to approve the fiscal year 2015 PB request for having military pay raises set at 1 percent instead of the mandated ECI rate of 1.8 percent. By adding language to the NDAA for Fiscal Year 2015 supporting current law of the NDAA for Fiscal Year 2004 stating military pay should match the ECI rate, Congress will have re-asserted its authority and counter the administration's use and interpretation of title 37 powers to change military pay rates as they please.

Basic Allowance for Housing Proposals in Fiscal Year 2015 President's Budget

In addition to base pay, servicemembers also receive a supplement for housing. BAH is an allowance paid to Active Duty servicemembers based on pay grade, dependency status and geographic location within the United States. The PB request for fiscal year 2015 proposes to gradually slow the annual BAH increases until rates cover only 95 percent of housing rental and utility costs on average. Additionally, it proposes to eliminate renter's insurance from the housing rates. The administration argues that this change only results in an out-of-pocket cost of 6 percent on average, emphasizing that such a change is far less than the 20 percent out-of-pocket costs in the 1990s. However, by the late 1990s, the Defense Department persuaded Congress to make military housing allowances meaningful by setting BAH at 100 percent of median local housing costs. This standard was codified after years of budget cuts reducing BAH rates below actual housing costs. Furthermore, they maintain that in areas where average rates increase, DOD will slow the growth of that increase until the 6 percent target is reached. Additionally, the administration claims that the actual percentage will vary by area, because it would be unfair to those who live in high rental cost areas to make this change on a strict percentage basis. Therefore, the administration proposes that servicemembers in the same pay grade, but living in different areas, should see the same dollar amount of out-of-pocket cost. In order to accomplish this, the individual servicemember will know the amount he will contribute toward housing and can make informed trades in his own budget. The rate protection feature will also remain in effect. In other words, no one who is currently living in a particular area will see his BAH decrease. If the survey data in an area indicate that the BAH rate should decrease, only members moving into the area will receive the lower rate, which already happens under the current rules. Finally, the administration expects that the out-of-pocket target of 6 percent will take several years to achieve because the DOD is just starting to slow the growth of future increases.

AUSN, however, disagrees with the administration's assessment and asserts that the fiscal year 2015 PB proposal of a 6 percent reduction in BAH will, because of its even spread over the entire force, prevent troops in high-cost living areas from paying out more of their base pay than troops in low cost of living areas. Under the administration's proposal, servicemembers will only receive 95 percent of the BAH for their rank and location, resulting in greater out of pocket housing costs. This "slowed growth" of the BAH will affect families, whether they rent or own their own home. All told, for example, an E-5 Active Duty family of four under this proposal would stand to lose a total of \$1,224, and an O-3 Active Duty family of four under this proposal would stand to lose a total of \$1,584 annually. Additionally, the fiscal year 2015 budget eliminates compensation for renter's insurance, which is an important component that goes into a servicemember's monthly housing cost. While AUSN is appreciative that the lower BAH will not affect a military family until their next duty assignment, we are concerned about the long-term impact on families' ability to find and pay for appropriate housing. BAH has a tremendous impact on servicemembers and their families' lives and is an important service that military families depend on to afford reasonable housing wherever it is they are stationed. As a result, AUSN urges Congress to reject the BAH proposals in the fiscal year 2015 PB and provide full BAH for any Active Duty servicemember at the current BAH rate.

TRICARE Proposals in Fiscal Year 2015 President's Budget

The military healthcare system is built mainly to meet military readiness requirements rather than to deliver needed care efficiently to beneficiaries. These readiness requirements result in increased costs across the healthcare system, as the system needs to be able to not only provide for beneficiaries but also be able to meet the readiness requirements the military has. But because the increased costs have been incurred as a result of military readiness requirements and out of convenience for the military, beneficiaries should not be expected to bear any share of the military-driven costs. Instead of imposing higher fees on beneficiaries as the first budget option, DOD leaders should be required to fix/consolidate redundant, counter-productive DOD health systems.

Currently, TRICARE is managed by the Defense Health Agency (DHA), formally the TRICARE Management Activity (TMA). On 1 October 2013, TMA was disestablished, whereby DHA took over. As a major component of the Military Health System (MHS), TRICARE combines the healthcare resources of the uniformed services with networks of civilian healthcare professionals, institutions, pharmacies and suppliers to provide access to high-quality healthcare services, while maintaining the capability to support military operations. This integration allows for the men and women of our Armed Forces to readily access care whether it is within VA healthcare centers or the private sector. The healthcare needed for servicemembers varies greatly throughout their military careers as they transition throughout the stages of their service. This variety, with multiple TRICARE plans, is designed in order to provide for the 9.66 million Americans who are eligible for benefits under TRICARE and have different degrees of healthcare. However, out of that 9.66 million, only just fewer than 5.5 million users are actually enrolled in a TRICARE program as many eligible beneficiaries receive healthcare via their current employers. In fiscal year 2012, more than 84 percent of eligible TRICARE beneficiaries used some form of Military Health System service, highlighting just how important the MHS and TRICARE systems are to providing care for the members of our Armed Forces and their beneficiaries.

The fiscal year 2015 PB provides for \$47.4 billion, spanning Defense Health Program, personnel and healthcare accrual. Despite large savings in recent years, DOD feels it must pursue veteran and military retiree healthcare reform. As part of this reform, the DOD has proposed a "Consolidated" TRICARE plan, as opposed to the current system with varied plans. Although there would be no change for Active Duty servicemembers, the remaining TRICARE beneficiaries would see changes to their plan. Cost shares would be implemented across all beneficiary levels, excluding Active Duty, in an attempt to facilitate the effective use of military clinics and increase the efficiency of the military's fixed facility cost structure. Additionally, there would be an annual TRICARE participation fee for retirees, their families and survivors of retirees, which if unpaid, would result in the forfeiture of coverage for that year. The annual consolidated TRICARE participation fee would be inflated annually according to the COLA but would start at \$286 per person or \$572 per family in 2016. Meanwhile, the cost sharing initiative would see an in-network catastrophic cap of \$3,000 per fiscal year and a combined (in and out of network) cap of \$5,000. The budget request goes on to propose increased copays for pharmaceutical prescriptions, with significant increases in what TRICARE beneficiaries must pay every time they fill or re-fill a necessary prescription over the next 10 years. Finally, there is a proposal to implement an enrollment fee for TRICARE for Life (TFL) beneficiaries. TFL, enacted in 2001, is an additional payment plan for eligible beneficiaries over the age of 65 who are also enrolled in Medicare Part B, which only covers about 80 percent of normal healthcare costs. The TFL fee proposal would grandfather current members in but would begin charging an annual fee, phased in over a 4-year period, based on a percentage of the beneficiary's military gross retired pay. This would result in annual fee ceilings above \$600 per beneficiary starting in fiscal year 2018.

In recent years, emphasis has been placed on achieving savings and efficiency within the MHS. On the other hand, approximately \$3 billion are being saved annually in MHS with programs such as the Prospective Payment system and the Federal Ceiling Pricing (a discount drug program). There have also been increases to fees for TRICARE beneficiaries, tied to annual COLA increases, over the past couple of years, and those would continue to increase under the current TRICARE system, in addition to savings seen via TRICARE Service Center closures. Additionally, as mentioned in the Federal Ceiling Pricing program, there have been significant savings achieved in pharmacy costs, as major changes have been enacted to double and triple pharmacy copays for military beneficiaries, and these will continue to increase in future years. Even more savings would be achieved under the current TRICARE system when the significant reductions in end-strength are enacted. Currently there

are plans for the end-strength of the Active and Reserve Forces to be cut by 124,000 troops over 5 years, and the fiscal year 2015 budget proposes an additional cut of 78,000 troops. Such significant reductions will reduce military healthcare costs, as there will be 202,000 fewer troops (and their family members) eligible for TRICARE benefits.

AUSN continues to be alarmed at the many attempts over past PB submissions for DOD to find savings off of those who have served and looking at military healthcare as a solution. Healthcare costs are only 10 percent of DOD's base operating budget. Put in the proper context, this is not very much. Healthcare costs account for 27 percent of the Federal budget, 32 percent of the average state budget, 16 percent of household discretionary spending and 17.2 percent of U.S. Gross Domestic Product. This shows that the current system which DOD uses to provide healthcare for nearly 10 million servicemembers and their families does not need to see such drastic changes, changes which will greatly impact the standard of living and quality of life many of our military members currently experience. AUSN recommends that fee increases be limited to the annual COLA and is opposed to any increase in TRICARE costs for users that is not directly related to COLA. AUSN also advocates that the healthcare provided by TRICARE (physical, behavioral, mental or otherwise) be up-to-date with the most current form of coverage and not consolidated for the needs of servicemembers and their families, and not just the budget needs of DOD.

Commissary Proposals in Fiscal Year 2015 President's Budget

The military Commissary system is administrated by the Defense Commissary Agency (DECA) and provides food supplies, beyond that official rations, and savings to supplement the pay received by the military. The Commissary system has been a cornerstone of the military's non-pay benefits and has become an integral part of ensuring that our young servicemembers and their families have the best possible quality of life. Particularly, the benefits the system provides are of great assistance to families stationed in high cost-of-living areas. On average, servicemembers and their families save more than 30 percent on grocery bills, which translates to around \$4,400 in savings per year. All the while, DECA strives to develop the Commissary system while balancing cuts to Commissary subsidies.

The fiscal year 2015 PB proposes that the \$1.4 million funding for DECA should be reduced to \$400 million over the course of the next 3 years. This is a two-thirds slash to DECA's budget and will eliminate many of the discounts Commissaries provide. Overall, a military family stands to lose a total of \$2,970 of Commissary savings per year if the fiscal year 2015 proposal is adopted. According to the fiscal year 2015 PB, for the system to survive, prices will have to be raised, but this could further alienate the customer base who can no longer afford its services. DECA operates 243 stores total, which includes 178 domestic locations. Commissaries overseas or in remote American territories are exempt from these cuts, but domestic bases will suffer a 20 percent price spike in goods and services based on the proposal. The military Commissary exchange and Moral Welfare and Recreation (MWR) programs are contributing factors to national defense by sustaining livelihoods and morale of its military and improving their quality of life.

AUSN supports responsible spending; however, lowering Commissary subsidies causes several consequences. First, according to Title 10 U.S. Code, section 2485, the Commissary stores' operations are, by law, required to reflect the cost of the items to DECA. Therefore, though price changes will vary, the prices in the commissaries are only set high enough to cover the recovered item cost. Also, built in Title 10, these savings are inherent features of the military Commissary system. Second, the savings commissaries provide is known to be a motivating factor in recruiting those who are willing to make the sacrifices associated with the military. Lack of proper compensation affects the military's ability to retain and recruit, which adversely affects its readiness capability. Third, these are not only incentives for servicemembers but promises made to protect and benefit their families upon joining the military. By cutting benefits there is a direct reduction to quality of life and stability. These are services that our military families rely on to fulfill their needs. While it affects military preparedness and readiness, the cuts are a greater disservice to the men and women who have defended our Nation who are left wondering if their families are being properly taken care of on bases when they are gone. Finally, AUSN is a strong supporter of two pieces of legislation moving through Congress that have recognized the detriment of lowering subsidies. H.R. 4215 and S. 2075, The Military Commissary Sustainment Act of 2014, both seek to prohibit any cuts in DOD's funding for commissaries until a final report has been filed by MCRMC next year. These bills protect against unnecessary stresses that

military families might suffer due to a rise in cost of living and also provide proper focus to an important benefit area that is owed to servicemembers.

COST-OF-LIVING ADJUSTMENT, RETIREMENT AND PROPOSAL IN DOD WHITE PAPER

The administration has already expressed a desire to wait on decisions regarding military retirement overhaul until the report from the MCRMC, established in the NDAA for Fiscal Year 2013, is submitted in February 2015. The MCRMC is currently meeting to review findings and come up with options for improvements to the current military compensation methodology. However, DOD released its own report in early March—"Concepts for Modernizing Military Retirement"—that proposes two slightly different design concepts for modernizing the military retirement system. The proposals, which AUSN appreciates and is interested in learning more about, would create a "hybrid" structure that combines a defined benefit plan (similar to the current system), a defined contribution component (similar to a civilian 401k plan) and supplemental pays. Secretary of Defense Chuck Hagel has also made it very clear that he would wait to ask Congress for any proposed changes in retirement until next year; however retirement, as well as the ongoing COLA debate, is important to mention.

Ongoing Cost-of Living-Adjustment Concerns

AUSN was pleased to see the 1 percent reduction of COLA established in the BBA of 2013 addressed with the partial fix in the fiscal year 2014 Omnibus Appropriations bill, passed January of this year, which exempted disabled veterans and survivors. Additionally, the passage in February of S. 25 covered the remainder of current retirees under 62. Despite this, there are still many concerns. First, while S. 25 seemed to have largely bipartisan support, some Members of Congress were disappointed with the "funny money" additional 1 year of sequestration offset, saying the Federal Government was "robbing one part of the budget to pay another." In particular, some Members of Congress argue, and AUSN agrees, that no one can be sure what the budget climate will be like for all Executive Branch departments, including DOD and the Department of Veterans Affairs (VA) after 10 years of sequestration (2013–2023), much less adding on one more for an 11th year of sequester cuts (to 2024). Other Members of Congress were displeased that the mandatory sequestered accounts being affected were unrelated to defense spending at all. As of now, it appears that there would be only two major DOD mandatory accounts that would be impacted by the extension of sequestration: TFL and DOD Retirement Contributions. This is, of course, relatively loose and subject to change, but at this point, those would be the primary accounts impacted by tagging on an additional year of sequestration to offset the COLA cuts from the BBA of 2013. Among the defense community, however, aside from the two mentioned mandatory accounts, it is hard to determine what money will be available given the uncertainty surrounding the future of sequestration.

Second, there are additional concerns regarding how the final bill, S. 25, with the COLA repeal was negotiated. It appears that the deal was brokered among the senior leadership of the House and Senate and not vetted by major stakeholders such as the chairmen and ranking members of the House Armed Services Committee, the House Veterans' Affairs Committee, the Senate Armed Services Committee (SASC) and the Senate Veterans' Affairs Committee. During a 28 January 2014 hearing of this committee, both defense officials and SASC members stated that they were not consulted during negotiations on the budget deal, the 2013 BBA, and wanted to be part of the conversation in the future to exempt current servicemembers and retirees from any changes to the pension system. This continues to set what appears to be a dangerous precedent where the process of bringing legislation through committees is undermined by Senate and House leadership taking control of forming bills and putting them through each chamber for consideration. AUSN asks the committee to keep these potential consequences in consideration moving forward, as the full impact of these repeal provisions will surely manifest themselves in the coming years.

Finally, while Congress has seemingly corrected the wrong that is the reduction in COLA calculations (for disabled Veterans and survivors through the fiscal year 2014 Omnibus Appropriation bill and passage of S. 25 for all other affected current and future retirees for their COLA calculations), the impact this will have on future servicemembers, Veterans and retirees, moving forward is unclear. Although the COLA cut repeal provisions passed earlier this year will grandfather those who joined the Service before 1 January 2014, the BBA COLA cut will still apply to all those who joined after 1 January 2014. AUSN recommends that that the committee keeps an eye on the impact this will have upon the livelihoods of future retirees and Veterans who will be joining the Armed Forces after 1 January 2014.

Retirement Proposals and DOD White Paper

Critics of the current military retirement system cite costs spiraling out of control, yet as the numbers have shown, retirement as a percentage of DOD's total budget has remained steady for the past decade, while other portions of the DOD budget increase every year. Currently, the military retirement system is non-contributory, meaning that servicemembers do not have to pay into their own retirement plans. To qualify for retirement pay, servicemembers must serve at least 20 years, upon which they will be eligible to receive a fixed, inflation-protected lifetime annuity beginning immediately following retirement from service. Generally, members of the Reserve Component who qualify for retirement pay do not begin receiving benefits until age 60. All retired servicemembers can apply for a Survivor Benefit Plan (SBP), providing surviving spouses with a lifetime annuity. Retirees with service-related disabilities, who receive both disability compensation and regular retirement benefits, experience a dollar-for-dollar offset, also known as concurrent receipt. Programs such as the Combat Related Special Compensation and Concurrent Retirement and Disability Pay are in place to counter this offset. However, the sacrifices made by servicemembers are not found in the civilian sector, and this could have harmful effects on retention rates if servicemembers decide that the compensation they receive does not compare to the unique costs they face in their military careers.

In both of the DOD's proposed concepts, servicemembers would qualify for full retirement after 20 years of service, but the annuity would be reduced compared to current benefits, resulting in decreased compensation in the long-term. Both design concepts plan to offset this reduction by shifting some deferred compensation, payment received upon retirement, to current pay. The difference between the two is most apparent in how they actually dispense this pay.

Concept 1 is a two-tiered system, offering partial benefits to members (both Active Duty and Reserve) after their retirement from service but during their employable years. It does not begin to pay members their full benefits, calculated with the same multiplier as the current system, until after the servicemembers reach their 60s. Concept 1 assumes that most servicemembers hold civilian jobs after retiring from the military, and therefore, are less dependent on their retirement at that time. This might be a harmful assumption, as not all military skills translate to the civilian sector. On the other hand, Concept 2 is a single-tier system that pays the member full benefits each year immediately following retirement from service. However, members of the Reserve component would not receive retirement compensation until reaching the age of 60, and the multiplier for calculating payments would be lower for all members than the one that is used today.

Both concepts offer supplemental pay: continuous pay after 12 years and transitional pay at retirement, though the amounts would differ slightly. Both concepts include a 401K-type contribution-based component as well, the Thrift Savings Plan (TSP), for those who serve beyond 6 years. The proposal also calls for modifications in the method of calculating disability payments and the elimination of the dollar-for-dollar offset currently required for servicemembers who receive both retirement pay from DOD and disability compensation from the VA. This would make the concurrent receipt programs in place today obsolete. Additionally, survivors will also be able to receive unused funds in TSP accounts in exchange for a cut in annuity payments from the SBP. The cost for SBP premiums will also increase, from 6.5 percent to 10 percent, but this will enable the elimination of the offset when the survivor also qualifies for Dependency and Indemnity Compensation (DIC) from the VA.

The report estimates that the modifications to the military retirement system could save DOD anywhere between \$500 million and \$2.7 billion for Active Duty members and about \$200 million for members of the Reserve component. The timeline for visible DOD savings is uncertain and will depend on the rate at which current servicemembers, who are grandfathered into the current retirement system, retire, are paid out and then are replaced by the new servicemembers receiving benefits based on the new system. While overall payouts to retired servicemembers will be less under both new proposals than in the current system, the inclusion of TSPs, continuation pay and transition pay offset some of the reductions in benefits. AUSN appreciates and acknowledges this thoughtful proposal as well as the concept of receiving a payout sooner, which could prove more valuable to some servicemembers, as could the opportunity for growth in the TSP accounts, which guarantee retirees compensation.

AUSN is also pleased that the white paper addresses areas of concern such as the SBP and DIC offset, concurrent receipt for disability and retirement pay and the Integrated Disability Evaluation System. The proposal acknowledges that disabled retirees could have had careers worth more had they been able to continue on and earn more benefits in addition to regular pay. The proposed disability benefits would be greater than the current compensation, mostly due to the elimination

of the offset. However, other issues can be found in the details, such as the fact that to claim unused TSP funds and eliminate the offset from the DIC payments survivors would face an increase in SBP premiums and decreased pay-back. This could potentially devalue the benefit.

Retirement Conclusion

An effective modernization of the retirement system needs to ensure four things: that military careers are competitive with other opportunities in the job market, that promotion opportunities are available for young servicemembers, that retired servicemembers can enjoy a certain level of economic security and that there is a pool of experienced personnel capable of being recalled to Active Duty in the event of wartime or an emergency.

AUSN is open to thoughtful dialog on retirement and recognizes the need to 'modernize' the current system. The 20-year benchmark has a proven tool useful for recruitment and retention; however, AUSN understands that providing more retirement options and/or a tiered system for certain retirement 'packages' that allow sailors to begin to receive compensation earlier in their careers may be better suited in the 21st century. Changes that ultimately improve the military retirement system for servicemembers and lead to cost-savings for DOD are welcomed by AUSN, provided that current servicemembers are grandfathered into the system into which they signed. It is important to keep faith with our men and women currently serving. Nonetheless, AUSN is mindful of lessons of the past, such as the REDUX reforms of the 1990s, where cuts to compensations resulted in harmful effects on recruitment and retention. Grandfathering the current servicemembers at the time did not mitigate the negative impact from REDUX, which had to be repealed a decade later, and AUSN asks that the committee also be mindful of the results from these changes in the past.

TESTIMONY CONCLUSION

The Association of the U.S. Navy understands that a good, thorough and honest look is needed in regards to the future of military compensation and benefit programs for our current and future force. However, we firmly believe that this must be done in a way that doesn't inhibit the recruitment and retention within our military. Many of these proposals are already being looked at by the MCRMC to examine and send to lawmakers a report on recommendations for establishing a new set of pay, compensation and benefits for our future forces. The MCRMC has not yet finished its mandated duties and investigations, yet DOD is moving forward with an aggressive set of compensation changes in its proposals within the fiscal year 2015 budget. With an extension on the report going into 2015, and a forthcoming preliminary report in May 2014, the Commission itself is still holding hearings, open and closed door Executive sessions, listening to testimony and gathering expert advice. AUSN's own Vice-Chairman of the Board, MCPON Jim Herdt, USN (Ret), has already testified in a public hearing before the Commission in November 2013, in an Executive session in March 2014 and has met with Commission staff many times throughout the year. Consequently, it seems rather premature to be taking action to change compensation, benefits and retirement when a proper analysis being done by the MCRMC is incomplete and such a detailed report with recommendation will not be shown until at least 2015. AUSN has been very pleased with the open dialog the MCRMC has had with Military and Veteran Service Organizations (MSO/VSO) and expects their report to reflect many of the thoughtful discussions on these issues being discussed in today's hearing.

Finally, while the COLA cut issue has been extremely important to AUSN and our members in the past few months, with its ability to affect the finances of a multitude of retired and current servicemembers, there is uncertainty about how the COLA reduction impacts our future servicemembers after 1 January 2014. Those who have signed up and joined the Armed Forces between 1 January 2014 and when S. 25 passed, 13 February 2014, will still see their COLAs reduced when they retire before the age of 62. A "breach of faith" with our servicemembers argument can be made to that effect and will be a future consequence moving forward. In addition, an argument can be made that we will now have servicemembers who joined prior to 1 January 2014 receiving one type of retirement compensation serving with servicemembers receiving a different type of compensation, whereby having a scenario of "haves" vs. "have nots." Again, this is an issue that may or may not manifest itself as a major problem, but concerns and questions on the impact of the passage of S. 25 still lie ahead.

AUSN appreciates the work of this committee and this hearing which seeks to look into how the future of our military compensation system will be sustained to reflect the current needs of our military. AUSN stands ready to be the "Voice for

America's sailors," abroad and upon their return home, and looks forward to working with Congress, the Navy and DOD on serving our Nation's sailors, veterans, retirees, and their families. Thank you.

Chairman LEVIN. Thank you so much, Admiral.
General McKinley?

**STATEMENT OF GEN. CRAIG R. MCKINLEY, USAF, RET.,
PRESIDENT, AIR FORCE ASSOCIATION**

General MCKINLEY. Thank you, Chairman Levin. I agree with my colleagues to thank you for your great service to our Nation. It has been nothing short of exceptional. Thank you.

Chairman LEVIN. Thank you.

General MCKINLEY. Ranking Member Inhofe, members of the committee, thank you for staying so late with us today. It has been a long day but a very educational day.

I will try to hit the wave tops because I know we have some questions from you and we would like to hear those.

On behalf of the Air Force Association's (AFA) 100,000 members and our chairman, George Muellner, I would like to thank you and the entire committee for your support of our Active Duty, Guard, Reserve, civilians, retirees, and veterans of the Air Force, their families and survivors, and for the significant concern and effort you have put forth for our national security. AFA is grateful for your unwavering commitment to the men and women who defend our Nation and appreciate the priority Congress has given personnel issues in the past decade.

We also acknowledge the increasingly difficult choices before our Nation. It is an honor to be here with you and my colleagues. I know we are all committed to the defense of this Nation, to those who serve and have served and their supporting loved ones.

Our airmen and retirees deserve every dollar they earn. However, as you have heard today, personnel compensation costs continue to climb at unsustainable rates, and for the Air Force, we have a much smaller force. If not addressed, they will consume much of our combat training and modernization spending over the next few decades.

We along with the other associations believe that the sequestration provision of the BCA of 2011 is destroying military readiness and endangering national security. It has normalized a dangerously low level of defense spending, constrained defense decisionmakers, and this new normal has created an unhealthy competition for resources within DOD's base budget.

I will cut to the chase. I believe we can never pay a military member enough for his or her willingness to risk their life for this Nation. However, we can ensure military members are competitively compensated to enable us to retain the All-Volunteer Force. Thanks to increases in compensation and benefits since 2001, our military members are compensated equivalently with their civilian counterparts when all benefits are included.

To conclude, with last year's grounding of 13 combat squadrons, lost opportunities for real-world training, and numerous course cancellations, to include our premier Red Flag exercise, our Air Force is at a crossroads. Sending airmen out to any contingency

without the best training and equipment we can give them could imperil the mission and jeopardize lives. This is unacceptable.

Our members, stakeholders, and indeed our airmen are committed to keeping faith with the American people by providing them with an Air Force that is capable, ready, and resourced appropriately for the future.

Thanks again for inviting us over here today. I look forward to your questions.

[The prepared statement of General McKinley follows:]

PREPARED STATEMENT BY GEN. CRAIG R. MCKINLEY, USAF (RETIRED)

Chairman Levin, Ranking Member Inhofe, on behalf of the Air Force Association's 100,000 members, I'd like to thank you and the entire committee for your support of our Active Duty, Guard, Reserve, civilians, retirees, and veterans of the Air Force, their families, and survivors, and for the significant concern and effort you have put forth for our national security.

We are grateful for your unwavering commitment to the men and women who defend our Nation, and appreciate the priority Congress has given personnel issues in the past decade. We also acknowledge the increasingly difficult choices before our Nation.

It is an honor to be here with you, and my fellow colleagues. I know we are all committed to the defense of the Nation, those who serve and have served, and their supporting loved ones.

Our airmen and retirees deserve every dollar they earn. However, as you have heard today, personnel compensation costs continue to climb at unsustainable rates, and, if not addressed, they will consume our combat, training and modernization spending over the next few decades.

We in the Air Force Association believe the sequestration provision of the Budget Control Act of 2011 is destroying military readiness and endangering national security. It has normalized a dangerously low level of defense spending, constrained defense decision-makers and this new normal has created an unhealthy competition for resources within DOD's base budget.

We are facing an even greater hollowing of the military as we strive to meet national security needs in a very dangerous security environment.

We believe this is a paramount national security issue. We urge lawmakers to end the political stalemate over taxes and entitlement spending and agree to a compromise resolution that will replace sequestration. Otherwise we will be forced to endure further manpower cuts aircraft reductions and fewer new aircraft to replace the aging fleet—creating not only dangerously low readiness levels, but a diminished ability to recover a sufficient state of readiness to meet the continuing challenges of national security.

We urge Congress to fund our military to levels enabling all components of the Armed Forces to be adequately manned, trained and equipped to effectively address the Nation's security challenges today and tomorrow.

No matter what the funding level is for Defense, we must honor our commitments to those serving today and to those who have served this great nation. Any changes to the current compensation and retirement system should include grandfathering the current force.

We could never pay a military member enough for his or her willingness to risk their life for this nation. However, we can ensure military members are competitively compensated to enable us to retain the All-Voluntary Force. Thanks to increases in compensation and benefits since 2001, our military members are compensated competitively with their civilian counterparts, especially when all benefits are included.

Changes to the military compensation structure should be based on a holistic assessment of the total compensation package, rather than piecemeal cuts. In fact, Congress should just as diligently examine the entire Federal employment and benefits system, as it has focused on our men and women in uniform.

We are working with Secretary Hagel's office to continue the dialogue about changes to the current system, and we have testified before the congressionally-mandated Military Compensation and Retirement Modernization Commission.

We support a compensation package for our All-Volunteer Force allowing us to recruit and retain the quality of Total Force airmen our national security demands.

These are challenging times. The force is coming home from 13 years of war ... actually 2 decades of continuous deployment since Operations Desert Shield and

Desert Storm, for the U.S. Air Force ... to a nation that is struggling with pervasive financial crises. Yet ... this Nation's global national security commitments and obligations continue to increase in scope and complexity.

With last year's grounding of 13 combat squadrons, lost opportunities for real-world training and numerous course cancellations to include our premier Red Flag exercise, our Air Force is at a crossroads. Sending airmen out to battle without the best training and equipment we can give them could imperil the mission and jeopardize lives. This is unacceptable.

Our members, stakeholders and indeed our airmen, are committed to keeping faith with the American people, by providing them with an Air Force that is capable, ready and resourced appropriately for the future.

Thank you again for your support of our force, and for the opportunity to offer this testimony from the Air Force Association.

I look forward to your questions.

"Over the past decade the cost per person in the active duty force has increased by 46 percent. If personnel costs continue growing at that rate and the overall defense budget remains flat with inflation, military personnel costs will consume the entire defense budget by 2039." *Center for Strategic Budget Analysis*

FY 2013 DoD Cost Per Person

	Active Component	Reserve Component
Military Personnel Account	\$84,808	\$26,033
DoD Defense Health	\$19,233	\$8,157
DoD Dependent Education	\$2,034	\$33
DoD Family Housing	\$1,235	-
DoD Commissary	\$996	\$49
Total DoD Compensation Costs	\$108,307	\$34,272

O&M	\$110,532	\$26,477
Procurement	\$71,601	\$4
MilCon	\$5,556	\$1,512
RDTE & Other	\$34,348	\$34,348
Total DoD Compensation Costs	\$22,2037	\$66,108

DoD Total	\$33,0342	\$100,380
Ept of Ed Impact Aid	\$355	\$9
Dept of Treas-Concurrent Receipt	\$4,514	\$747
Dept of Treasury MERHCF	\$3,264	\$2,230
Dept of Treasury Mil retirement	\$39,800	\$13,638
Dept of VA	\$6,334	\$6334
Dept of Labor, Vet Ed/Training	\$12	\$12
Total Cost to US Govt	\$38,4622	\$12,3351

Chairman LEVIN. Thank you so much, General.

Let us just do 5 minutes here.

Senator INHOFE. Four.

Chairman LEVIN. Four minutes. Okay, I take that suggestion to make sure we all have a chance to do this before 1 p.m.

First of all, perhaps two of you have mentioned that the numbers that have been provided for us in terms of the increase in personnel costs as percentages of the budgets of the Services are not numbers that you think are necessarily on target. What we would do is welcome any or all of you on that subject or any other subject, but on that subject for the record. Take a look at those numbers. I think they are probably available to each of you. Tell us where you have differences from those percentages, if you do. Just for the record, that would be helpful to us.

[The information referred to follows:]

INFORMATION SUBMITTED BY GENERAL GORDON R. SULLIVAN, USA (RET.)

"YOUR ESTIMATE OF PERCENTAGE OF DOD BUDGET CONSISTING OF PERSONNEL COSTS"

AUSA estimates that for the last 30 years DoD personnel costs have stayed steady at between 30 and 33 percent. As a point of comparison, the United Parcel Service spends 61 percent on personnel costs and FedEx spends 43 percent on personnel costs. During the same period the DoD budget has consumed less (currently only 17 percent) of the total federal budget so, in aggregate, military personnel costs have consumed less of the federal budget over time.

Since 2001 Congress implemented fixes to close a pre-existing and chronic pay gap, repair recruiting and retention and deliver promised health care coverage. Now that those fixes are in place, above cost of living pay increases are no longer necessary so steep cost increases will not continue.

INFORMATION SUBMITTED BY GENERAL CRAIG R. MCKINLEY, USAF (RET.)



1501 Lee Highway, Arlington, Virginia 22209-1198 (703) 247-5800
An Independent Nonprofit Aerospace Organization

July 11, 2014

The Honorable Carl Levin
Chairman
Armed Services Committee
United States Senate
Washington, DC 20510

The Honorable James Inhofe
Ranking Member
Armed Services Committee
United States Senate
Washington, DC 20510

Dear Chairman Levin and Ranking Member Inhofe,

Chairman Levin, Ranking Member Inhofe, on behalf of the Air Force Association's 100,000 members, I'd like to thank you and the entire Committee for your support of our Active Duty, Guard, Reserve, civilians, retirees, and veterans of the Air Force, their families and survivors, and for the significant concern and effort you have put forth for our national security.

The Air Force Association is grateful for your unwavering commitment to the men and women who defend our nation, and appreciate the priority Congress has given personnel issues in the past decade. We also acknowledge the increasingly difficult choices before our nation. Our Airmen and retirees deserve every dollar they earn. However, as the Service Chiefs have all indicated, personnel compensation costs continue to climb at unsustainable rates, and, if unaddressed, they will consume our combat, training, and modernization funds over the next few decades.

We could never pay military members enough for their willingness to risk their lives for this nation. But we can ensure our servicemembers are competitively compensated so that we can recruit and retain the quality of Total Force Airmen our national security demands in an all-volunteer force.

We also thank you for focusing attention on this issue and the pay and benefits proposals recommended by the Department of Defense in its FY2015 budget request. The May 6, 2014 full committee hearing on this topic provided a critical public forum for participants to express various viewpoints.

During the course of the hearing, the Service Chiefs and some of the associations in the second panel gave varying numbers in their testimony regarding personnel costs and their share of the base budget. Chairman Levin asked for the second panel's participants to provide a statement for the record on those conflicting numbers. Attached you will find our analysis of this issue.

Sincerely,

General Craig McKinley, USAF (Ret)
President
Air Force Association

On behalf of the Air Force Association's 100,000 members, thank you for the opportunity to submit the below statement for the record. During the May 6, 2014 hearing, Chairman Levin asked the second panel to provide the Committee with an accounting of the difference between DoD's numbers on personnel costs and those the associations testified to.

In prepared testimony, the Military Officers Association of America (MOAA) testified that personnel costs have remained at approximately one third of the budget. During the hearing, the Service Chiefs provided responses that ranged to some degree: the Marine Corps testified to a 63 percent personnel cost; The Chief of Naval Operations said personnel are "about a third" of the budget, but also commented in his opening statement that "Total Force" personnel costs are at 40 percent; and the Army and the Air Force said 48 percent. The Air Force stated that its calculation included civilian personnel costs along with active duty military. The difference between these estimates appears to be due to the inclusion or exclusion of civilian personnel in the cost calculation. A clarification over the definition of terms on DoD's behalf would be helpful, and we encourage the Committee to seek a detailed explanation behind the Services' testimony. The analysis below (table 1), provided to the Air Force Association by the Center for Strategic Budget Analysis, is consistent with MOAA's statement that active duty personnel costs (not including civilians) have been roughly 1/3 of the budget for some time.

Military Compensation Budget Share (base budget only)

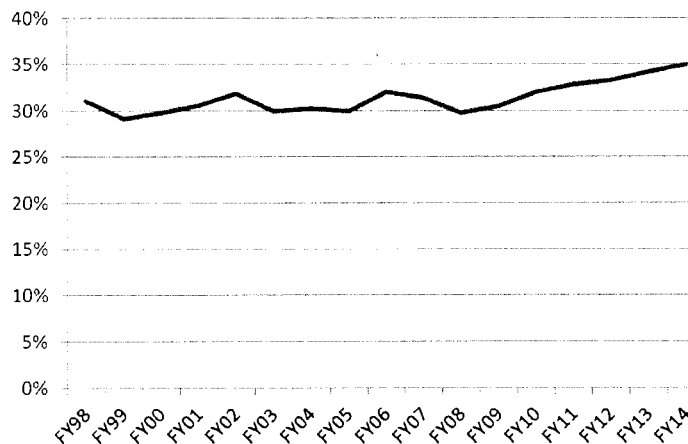


Table 1
Source: Todd Harrison, Center for
Strategic and Budgetary Assessments

While personnel costs have been consistently around 1/3 of the budget share, the trend line shows they have been on the increase since 2010, peaking in 2014 at 35 percent. Two further points help clarify DoD's concerns regarding active personnel costs. First, the budget topline grew dramatically over the past decade, which means the 1/3 dollar amount devoted to personnel grew with that expansion. However, over the same period active end strength did not sustain an increase, leading to an expansion of costs per active service member (table 2).

Cost per Active Service Member
(in FY15 dollars, base budget only)

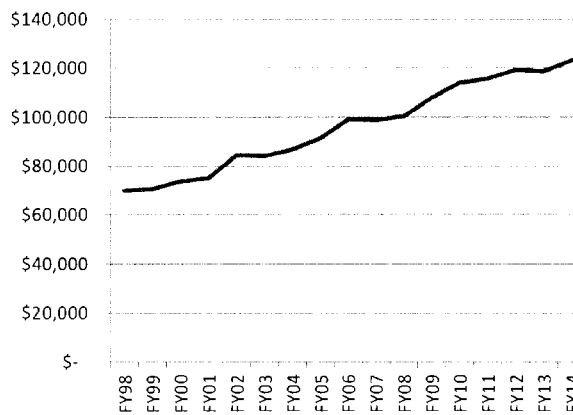


Table 2
Source: Todd Harrison, Center for Strategic
and Budgetary Assessments

It may be noted that overall dollars spent on MilPers and healthcare have gone down marginally in the last few fiscal years, but that small decrease is attributable to the reduction in end strength, not compensation. In fact, Air Force end strength is the smallest it has been since its inception in 1947, and next year that number will be lowered by another 17,000 Airmen. The personnel savings from reductions in force will have to stop at some point.

Finally, while AFA does not necessarily advocate for all of DoD's proposed pay and benefit reforms in the FY15, the budget share of personnel costs would roughly be around 1/3 through the FYDP if those changes were implemented. On the other hand, assuming compensation policy is kept the same while the defense drawdown keeps the base budget flat, the current growth rate of its share of the overall budget would consume the entire budget by 2038, according to the recently-released Center for Strategic and International Studies' report entitled "Building the 2021 Affordable Military."

INFORMATION SUBMITTED BY VADM JOHN B. TOTUSHEK, USN (RET.)



12 May 2014

The Honorable Carl Levin (MI)
Chairman, Senate Armed Services Committee
228 Russell Senate Office Building
Washington, D.C. 20510

The Honorable James Inhofe (OK)
Ranking Member, Senate Armed Services Committee
228 Russell Senate Office Building
Washington, D.C. 20510

CC: Mr. Jonathan Clark and Mr. Steven Barney

Dear Chairman Levin and Ranking Member Inhofe,

On behalf of the Association of the United States Navy (AUSN), we would like to thank you for the opportunity to speak before the Senate Armed Services Committee this past week about the impact of sequestration as well as the proposals within the President's Budget (PB) request for Fiscal Year 2015.

As we testified, the FY15 PB contained numerous provisions that change the current system of military compensation and benefits of our nation's men and women in uniform. Of particular concern were proposals within the Department of Defense's (DOD's) budget to reduce military pay raises to less than the Employment Cost Index (ECI); lower Commissary subsidies; reduce the Basic Allowance for Housing; and instituting new TRICARE for Life enrollment fees and increasing pharmacy copays. All of these changes are being portrayed by the Administration and DOD as noted in the hearing as necessary cost savings to protect training and readiness. All of the proposals are to be instituted before the Military Compensation and Retirement Modernization Commission mandated by Congress in the Fiscal Year 2013 (FY13) NDAA, has finished its final report, due by February 2015.

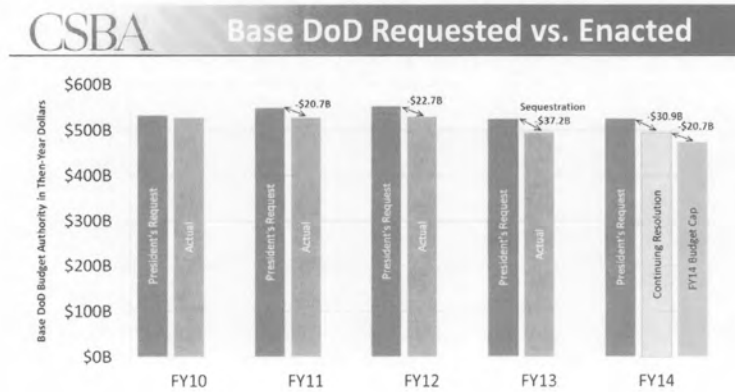
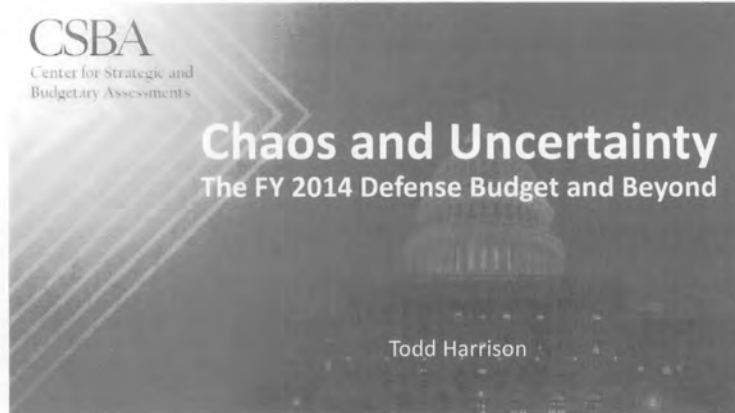
As requested during the hearing, we would like to offer two of the studies done that offer a differing view on military compensation than what is being offered by DOD. We cited data from several of these in our testimony and as Senator Reed rightfully pointed out we need to make certain we understand the basis for the figures. The Center for Strategic and Budgetary Assessments (CSBA), for example, did a study called, "Chaos and Uncertainty, the FY14 Defense Budget and Beyond," in which they included a graph (Enclosure 1) that illustrated that a majority of what is classified as 'military personnel' costs are actually outside of DOD's budget. This could be one of the points of confusion in the differing statistics quoted. Additionally, Marine Corps manpower costs are elevated relative to their Total Obligated Authority (TOA) as many of their acquisition costs are in the Navy budget.

Based upon OMB data, the ratio of DOD personnel costs relative to TOA has stayed fairly flat over the past 30 years. Please see Enclosure 2 for a graph prepared by MOAA that illustrates that fact.

Thank you the opportunity to voice the concerns of our constituencies- If you have any questions or concerns, please feel free to contact us at 703-548-5800.

Sincerely,

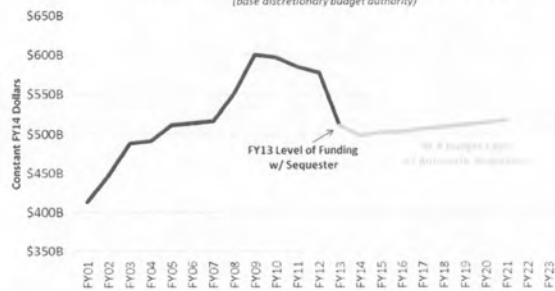
VADM John B. Totushek, USN (Ret.)
Executive Director



CSBA

FY14 Budgetary Uncertainty

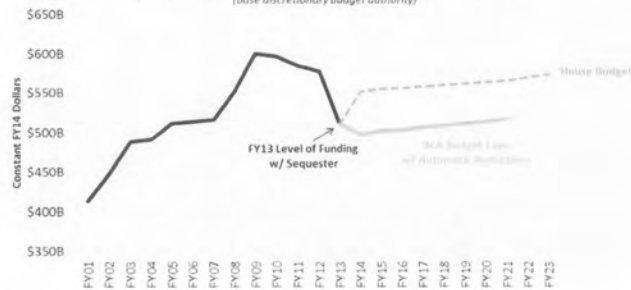
Comparison of National Defense Budget Proposals
(base discretionary budget authority)



CSBA

FY14 Budgetary Uncertainty

Comparison of National Defense Budget Proposals
(base discretionary budget authority)



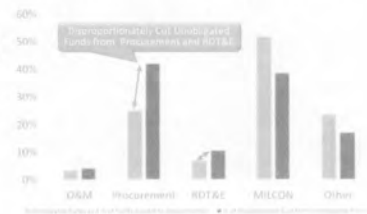
CSBA

FY13 Sequester

% Cut from FY13 Sequester by Title



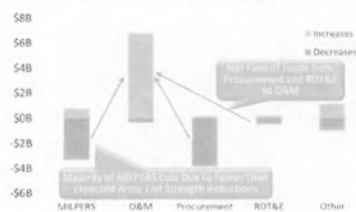
Use of Prior Year Unobligated Funds for Cuts



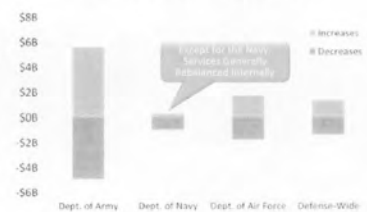
CSBA

FY13 Reprogramming

Proposed Reprogramming by Title



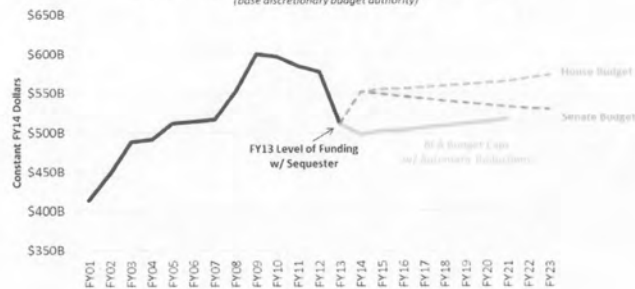
Proposed Reprogramming by Service



CSBA

FY14 Budgetary Uncertainty

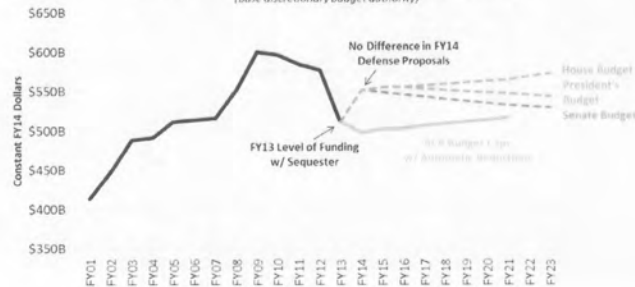
Comparison of National Defense Budget Proposals
(base discretionary budget authority)



CSBA

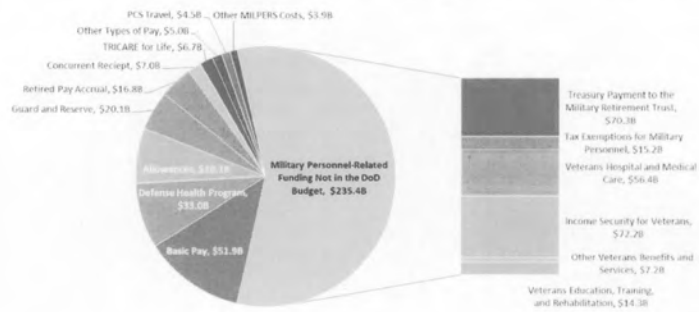
FY14 Budgetary Uncertainty

Comparison of National Defense Budget Proposals
(base discretionary budget authority)



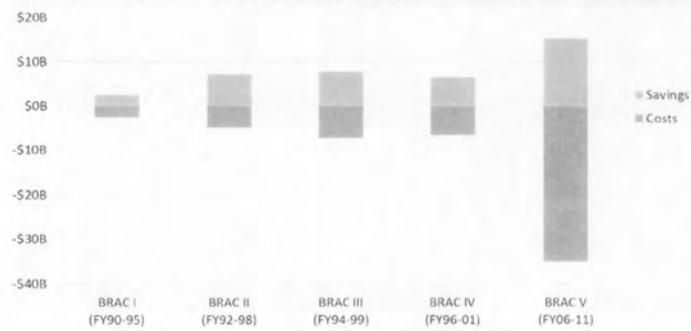
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FY14 Military Personnel-Related Request



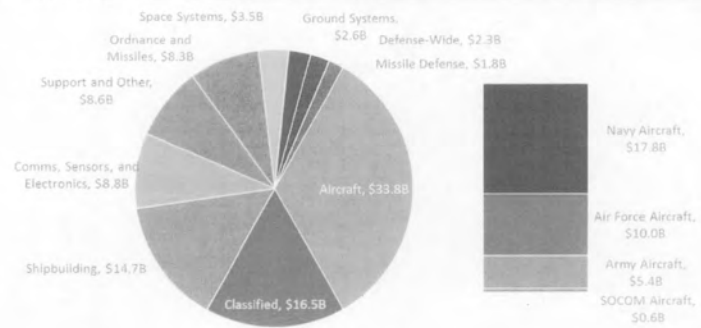
CSBA

BRAC Implementation Costs/Savings



CSBA

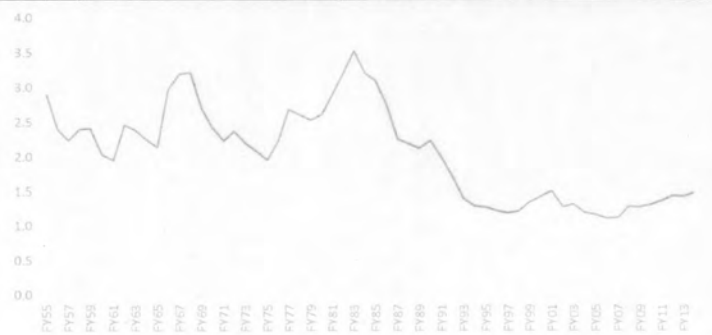
FY14 Procurement Request



11

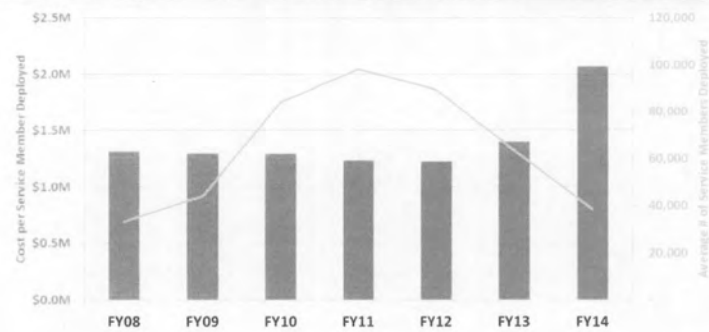
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Ratio of Procurement to RDT&E



12

CSBA Cost Per Troop in Afghanistan



13

CSBA Costs Versus # of Troops



14

CSBA

Comparison of OCO Costs

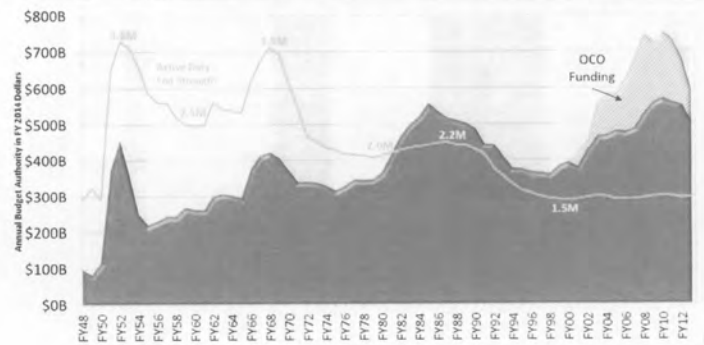
	FY 2013 Enacted	FY 2014 Request	% Change
Military Personnel			
Army	\$ 10,667,022	\$ 7,309,104	-31%
Navy	\$ 2,328,868	\$ 1,649,798	-29%
Air Force	\$ 1,265,404	\$ 894,438	-29%
Total	\$ 14,261,294	\$ 9,853,340	-31%
Operation and Maintenance			
Army	\$ 33,451,520	\$ 37,527,659	+12%
Navy	\$ 10,037,675	\$ 8,320,189	-17%
Air Force	\$ 9,344,854	\$ 10,060,273	+8%
Defense-Wide	\$ 9,770,652	\$ 7,726,350	-21%
Total	\$ 62,604,701	\$ 63,634,471	2%
Procurement			
Army	\$ 4,087,437	\$ 2,684,456	-34%
Navy	\$ 1,407,241	\$ 659,498	-53%
Air Force	\$ 3,136,423	\$ 2,147,498	-32%
Defense-Wide	\$ 1,288,099	\$ 126,275	-90%
Total	\$ 9,919,200	\$ 5,617,727	-43%
Research, Development, Test, and Evaluation			
Army	\$ 29,660	\$ 7,000	-76%
Navy	\$ 52,519	\$ 34,426	-34%
Air Force	\$ 3,150	\$ 9,000	+186%
Defense-Wide	\$ 112,387	\$ 22,061	-80%

CSBA

Comparison of OCO Costs

	FY 2013 Enacted	FY 2014 Request	% Change
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Army	\$ 10,667,022	\$ 7,309,104	-31%
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CSBA Historical Trends in DoD Funding



CSBA Trends in Modernization Accounts



CSBA

Trends in O&S Accounts



19

CSBA

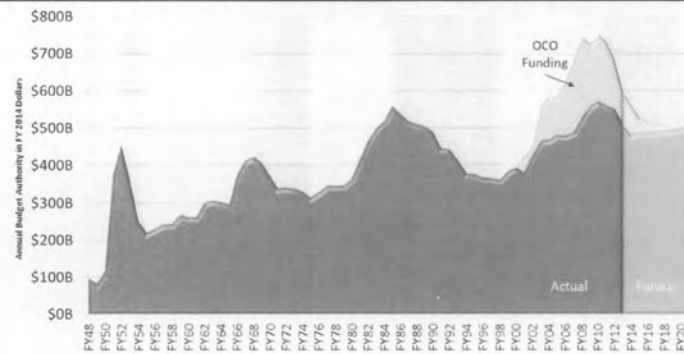
Trends by Service



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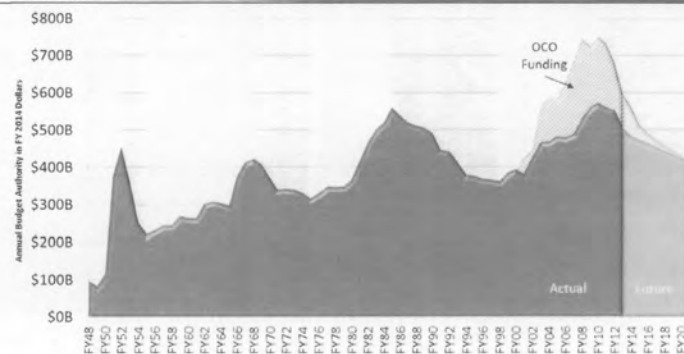
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BCA Drawdown Scenario



CSBA

Historical Trends Drawdown Scenario



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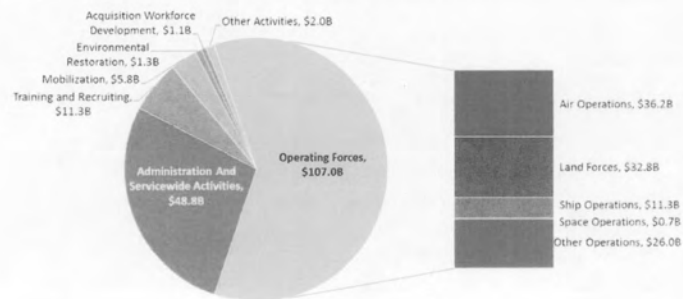
Questions?



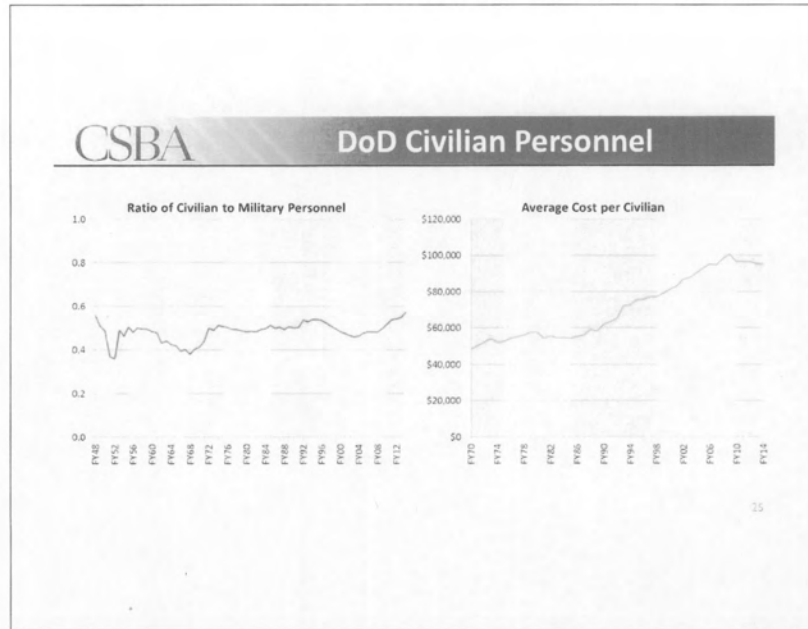
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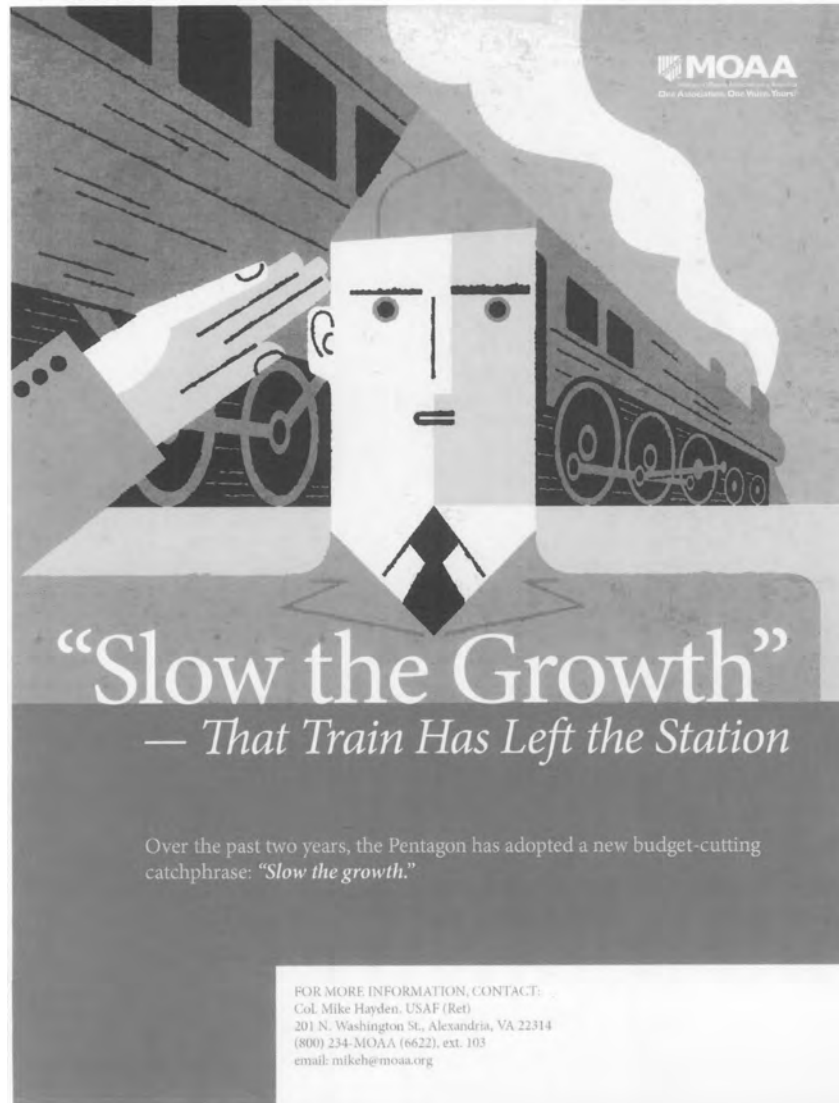
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FY14 O&M Request



24







Uniformed and civilian leaders have created a perfect storm, providing political top cover to slash pay and benefits with repeated, alarming — and noticeably misleading — statements on personnel cost growth.

The Pentagon's ongoing rhetoric about personnel costs "spiraling out of control" has emboldened many in Congress to not only consider but also propose drastic changes to the military benefits, compensation, and the retirement system in the name of fiscal responsibility without fully understanding the unintended consequences of their actions and the impact on morale and retention.

Many of the suggested cost-cutting proposals have gained traction because both critics and the Pentagon continue to cite "personnel cost growth since 2000" as the prime reason to gut pay and benefits.

What concerns MOAA, and should concern members of Congress, is the critics (and the Pentagon) are fixated on the year 2000

as a baseline for forecasting future growth, insisting compensation and health care costs are growing at rates that, as Chairman of the Joint Chiefs Army Gen. Martin Dempsey said, "are unsustainable to the all-volunteer force."

MOAA thinks it is important to put the "growth since 2000" argument in the proper context to understand why military pay has risen faster than that of the average American's from 2000 to 2010.

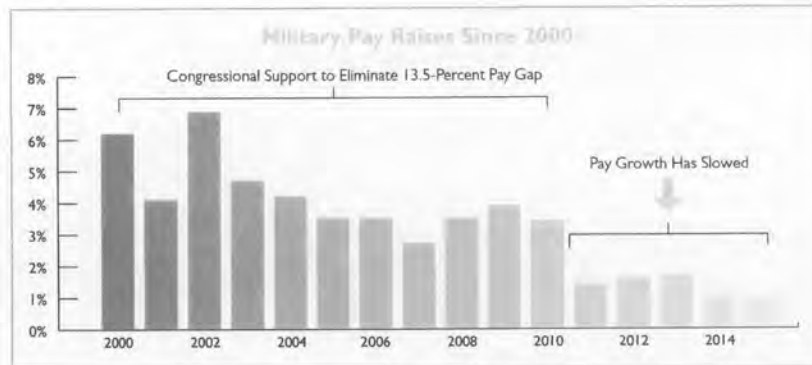
Have costs grown since then?

Yes, but using the 2000 baseline without reflecting on the historical context is grossly misleading.

First, it implies the turn of the century was an appropriate benchmark for estimating what reasonable personnel and health care spending should be. Nothing could be further from the truth.

Ongoing rhetoric about personnel costs "spiraling out of control" has emboldened many in Congress.

COVER ILLUSTRATION: TIMOTHY COOK



Congress worked diligently over the next decade to restore military pay comparability (see chart above), repeal retirement cuts, and restore promised health care coverage for older retirees.

At that time, years of budget cutbacks had depressed military pay, cut retirement value by 25 percent for post-1986 entrants, and booted beneficiaries over age 65 completely out of the military health care system.

As a result, retention was on the ropes, and the Joint Chiefs of Staff were imploring Congress to fix the problems to prevent a readiness crisis.

Congress worked diligently over the next decade to restore military pay comparability (see chart above), repeal retirement cuts, and restore promised health care coverage for older retirees. In other words, the cost growth was essential to keep the previous cutbacks from breaking the career force.

Now, more than a decade later, many of those same officials and their successors express shock that these fixes cost money. They find it convenient to forget Congress

deemed those changes less costly than the continued erosion of our defense capabilities.

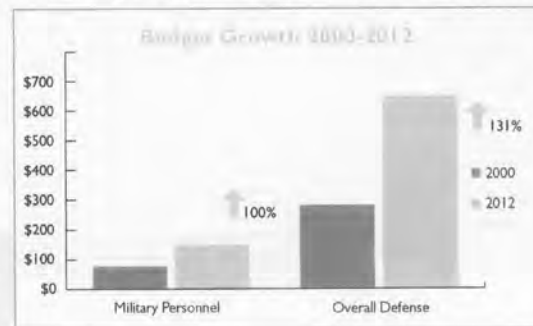
Recent military compensation studies have leaped to the erroneous conclusion the cost trends of the past decade will continue indefinitely.

Not so. Now that pay comparability has been restored, there is no further need for extra pay plus-ups above private-sector pay growth. Similarly, Congress won't have to

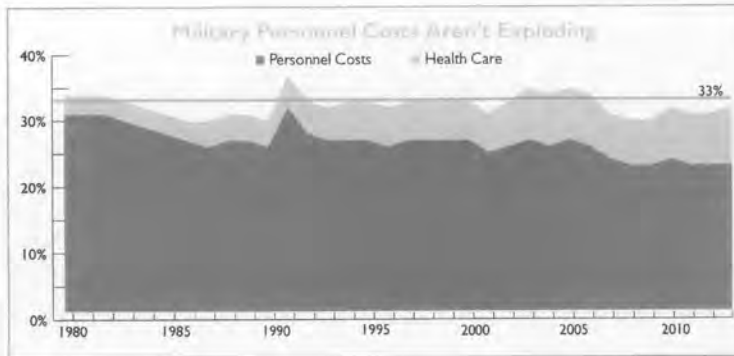
approve another TRICARE For Life program or repeal REDUX. Those were one-time fixes.

Yet, Pentagon leadership continues to focus on "recent growth trajectory" and has adopted a new budget-cutting catchphrase: "Slow the growth."

For example, according to the Office of Management and Budget's Historical Table 3.2, the military personnel account has doubled be-



Personnel costs are a significant and an essential share of the defense budget.



Defense personnel and health care expenditures combined represent about 33% of the total defense budget. The chart shows that this combined share remains fairly constant over the past 30-plus years.

tween 2000 and 2012, from \$76 billion to \$152 billion.

What the Pentagon clearly doesn't publicize is the overall defense budget grew over the same period, from \$281 billion to \$651 billion — a 131-percent increase (see chart below left). This alone shows personnel costs are consuming an even smaller share of the budget. If any defense costs are "spiraling out of control," they're not personnel costs.

Additionally, hardware cost overruns have been left unchecked. A Government Accountability Office report issued in October 2013 highlighted that the Pentagon's 85 major acquisition programs were collectively some \$411 billion over their initial cost estimates in 2012 — a sum that alone could wipe out the remaining years of the DoD sequestration budget cuts.

Some members of Congress, think tanks, and many in the press simply have accepted the Pentagon's rhetoric without subjecting it to critical thought or scrutiny.

MOAA thinks all these stakeholders should be critical of the rhetoric and ask the Pentagon to show how it is forecasting future personnel growth.

The Pentagon's math simply does not add up.

Military personnel costs have continued to consume the same share of the Pentagon's budget for the past 30 years: about one-third (hardly spiraling out of control).

Fortunately, MOAA is not the only one asking the Pentagon why and how. A November 2013 *MilitaryTimes.com* article, "Top brass claims personnel costs are swamping DoD, but budget figures say otherwise," directly addresses the grossly exaggerated public statements senior Pentagon leadership has made regarding military pay and benefits.

However, this article has not precluded the Pentagon nor the administration from asking for deeper cuts to personnel compensation and benefits to secure more funding for

weapon programs, which they have asked for in the FY 2015 budget.

Earlier this year in an NPR interview, Dempsey reemphasized this point by saying, "I have one sacred obligation to the young men and women who serve, and only one. If I ask them on behalf of the president to go to places like Afghanistan or some other conflict, they must be the best-trained, best-equipped, and best-led force on the planet. I don't want to win 5-4. I want to win 50-nothing. To do that, we've got to make the appropriate investments in training, readiness, leader development, modernization, and manpower. But I can't have the manpower account so out of proportion that it precludes me from making sure that if they go into harm's way they're ready to go."

The Pentagon's math simply does not add up.

This overall budget submission is not limited to pay. This "quadruple whammy" would be four giant steps toward repeating past insidious measures.

Leveraging people programs against readiness is simply a false choice. The key to a ready force is sustaining the top-notch, 10-year, mid-level NCO and officer for another 10 years. Without existing military career incentives, the sustainability of the all-volunteer force would have been placed at serious risk during the past 12 years of protracted wartime conditions.

Bending the cost curve

What's also lost is pay and benefit dominoes already have begun to fall, significantly bending the curve

on personnel costs — in other words, that train has left the station.

Domino 1: TRICARE Policy
Beneficiaries already have seen increases to TRICARE enrollment fees over the past several years, and fees will continue to rise at the rate of a retiree's COLA, but that is only the beginning. TRICARE service center closures and the new Defense Health Agency also will contribute to large projected savings.

Domino 2: TRICARE Pharmacy
Major changes have been enacted to double and triple pharmacy copayments for military beneficiaries, and these will continue to increase in future years at the rate of inflation. TRICARE For Life beneficiaries are being required to use the far less expensive mail-order system for refills of maintenance medications, which dramatically will reduce pharmacy costs.

Domino 3: cost sharing
Cuts of 124,000 servicemembers over five years are planned for the active and reserve forces, and now the FY 2015 budget calls for an additional 78,000-plus cuts. These reductions will bend the personnel cost-growth curve.

Extraordinary Military Career Sacrifices

A military career entails unique and arduous service conditions few Americans are willing to endure for 20 to 30 years, including:

- hazardous duty;
- service in foreign, often hostile environments;
- frequent/extended forced family separations;
- long duty hours without extra pay;
- frequent forced relocations;
- disruption of spousal career/earnings;
- disruption of children's schooling;
- inadequate expense reimbursement;
- "up or out" promotion system;
- forced mid-life career change; and
- forfeiture of personal freedoms other Americans take for granted.

Domino 4: pay — This year, servicemembers will see the lowest pay raise in more than 50 years with their pay capped below private-sector pay growth — and this is not a one-time cap. In the FY 2015 budget submission, the administration and Pentagon rolled out a plan to cap pay again at 1 percent (versus 1.8 percent in law) and undo the hard work Congress accomplished over the past decade to eliminate the pay gap by extending caps through FY 2019.

Domino 5: retirement — The recent 1-percent COLA legislation provided relief to working-age retirees and most currently serving members, however, the cut remains in force for those who entered service after Jan. 1, 2014.

The FY 2015 budget

The FY 2015 budget submission proposes several significant pay and benefit cuts inconsistent with the sacrifices exemplified by the past 13 years of war:

- capping pay below the Employment Cost Index (ECI) for a second straight year (with more planned);
- reducing Basic Allowance for Housing (BAH) by 5 percent, reversing DoD's own initiative to eliminate out-of-pocket housing costs, completed in 2006;
- reducing commissary savings for uniformed service families; and
- restructuring the TRICARE benefit so that active duty families and retiree beneficiaries will pay more for their health care.

The Pentagon is suggesting these cuts, saying spending on pay and benefits for servicemembers has "risen about 40 percent more than growth in the private sector" since 2001.

Annual Loss of Purchasing Power for E-5 and O-3 Uniformed Services (active duty family of four with 10 years of service)		
	E-5	O-3
Loss of Basic Pay*	\$593	\$1,130
Basic Allowance for Housing	\$1,224	\$1,584
Commissary	\$2,970	\$2,970
TRICARE	\$206	\$206
Total annual loss	\$4,993	\$5,890

*FY 2014 and FY 2015 aggregate loss

Congress worked over the past decade to fix the 13.5-percent pay gap, eliminate the 18-percent out-of-pocket housing costs military members faced, and reverse the resulting retention problems caused by repeatedly capping military raises below private-sector pay growth in the 1980s and '90s.

Since 2001, personnel and health care costs experienced an average 7.6-percent rate of growth, but that cost growth was essential to keep the previous compensation cutbacks from breaking the career force. Since 2010, personnel cost growth has slowed to less than 2 percent a year.

Sustaining pay raises comparable to the average American's is a fundamental tenet of the all-volunteer force.

In the late 1970s, Congress enacted two double-digit pay raises to correct retention in the wake of multiple pay-raise caps. In 2003, Congress explicitly linked annual military raises to private-sector pay growth via the ECI.

Now, the FY 2015 budget proposes a 1-percent pay-raise cap (versus the 1.8 percent indicated by the ECI) for the second straight year — a bad trend.

In the late 1990s, DoD persuaded Congress to make military housing

allowances meaningful by setting BAH at 100 percent of median local housing costs. This standard was codified after years of budget cuts reduced BAH rates below actual housing costs.

What's the bottom line? Between the FY 2014 and FY 2015 pay caps, the proposed BAH reductions, and the planned reductions in commissary savings, an E-5 would experience a loss of nearly \$5,000 in purchasing power annually and an O-3 would experience a loss of nearly \$6,000 in purchasing power annually (see chart above).

MOAA's position

MOAA understands the predicament defense leaders face, and we agree balancing the force and ending the harmful effects of sequestration must be accomplished. Not doing so presents risks to national security.

But past experience capping military raises below private-sector pay growth has proven that once pay-

raising pay isn't enough, it can backfire. If pay is capped, it can lead to a loss of readiness and retention.

raise caps begin, they continue until they undermine retention and readiness.

The troops' past three raises averaged less than 1.4 percent, with the FY 2014 pay raise being the lowest in 50 years — only to be matched by the FY 2015 proposal. Yet this overall budget submission is not limited to pay. This "quadruple whammy" of capping pay, increasing out-of-pocket expenses for housing, consolidating TRICARE, and slashing commissary benefits would be four giant steps toward repeating past insidious measures that led to retention and readiness problems.

This piecemeal reduction to pay and benefits is doubly inappropriate because the Military Compensation and Retirement Modernization Commission will be offering even broader reform proposals next year.

MOAA's recommendation to Congress is not to allow budget cuts to undo needed compensation improvements since 2000 to match the extraordinary demands and sacrifices of a military career. What's needed is to sustain pay and benefits for the men and women in uniform and their families.

The most important element of a strong national security is sustaining a dedicated, top-quality mid-level NCO and officer force. These changes will force them to second-guess a career in the military.

What's needed is to sustain pay and benefits for the men and women in uniform and their families.

INFORMATION SUBMITTED BY VADM NORBERT R. RYAN, JR., USN (RET.)



Statement for the Record

to the

Senate Armed Services Committee

from the

Military Officers Association of America (MOAA)

May 6, 2014 Hearing

on

Military Compensation and the FY 2015 Defense Budget Proposals

During the May 6, 2014 hearing, Chairman Levin asked the second panel to provide the Committee, for the record, our concerns over the numbers that have been provided in terms of the increase in personnel costs as a percentage of the budgets of the Services.

Current Personnel Cost Share of the Service Budget

During the hearing, the Service Chiefs provided the following responses when questioned by Senator Lindsey Graham as to the percentage of their budgets that are personnel costs:

Commandant of the Marine Corps: "63 percent"

Chief of Naval Operations: "about a third"

Chief of Staff of the Army: "48 percent"

Chief of Staff of the Air Force: "roughly 48 percent with military and civilians together"

It appears that the Services and DoD are using different factors when calculating personnel costs. In the responses above, we have not been able to validate what each service includes as the budget materials available on the OSD Comptroller and the Services websites lack the detailed breakout of military personnel, civilian personnel and health care costs for each of the respective services – we encourage the Committee to solicit from the Services a detailed breakout of their cost estimates.

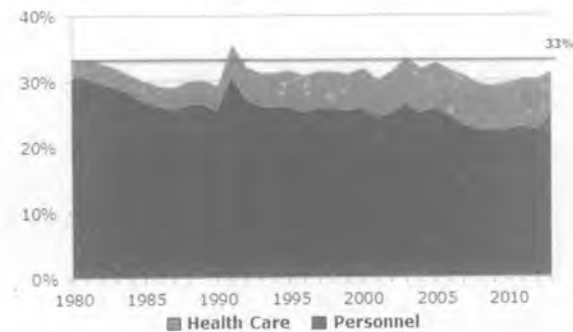
Based on our analysis of the overall DoD budget numbers, we believe the Marine Corps, Army, and Air Force provided numbers that contain civilian personnel costs while the Navy provided just military personnel costs.

In our written statement, we provided analysis of the entire DoD budget, focusing on outlays in two accounts (MilPers and DHP) from 1980 to 2014. When compared to overall defense outlays (with Overseas Contingency Operations), personnel cost shares remain roughly a third of the budget (see chart on next page).

In our analysis, we did not include civilian personnel costs. The Pentagon's argument focuses on the assertion that military personnel costs are spiraling out of control and it is military pay and benefits that are being proposed for reductions, cuts, and increased cost shares. With that in mind we felt including civilian costs was inappropriate.

Military Personnel Costs Aren't Exploding

About one-third of the defense budget goes to military personnel and health care costs – the same share it has been for more than 30 years. That's no more unaffordable now than in the past.



Source: OMB Historical Tables 3.2 and 16.1

MOAA's main concern is what DoD is using in their calculation: what is "in" the budget and what is "out."

In this year's budget submission, figure 5-1 outlines military pay and benefits as a share of the "base" defense budget. In FY 2001 that figure was 34.6%; in FY 2012 34.6%; and in FY 2015 35.6%. If you include the Pentagon's civilian personnel costs the numbers are 48.5%, 47.8%, and 49.7%, respectively.

Using DoD's numbers over that 13 year period, personnel costs have remained relatively constant as a share of the defense budget, with a one percent uptick between FY 2012 and FY 2015.

We do not consider this as "unsustainable" or "spiraling out of control" when you consider the number of compensation and benefit fixes Congress - and this Committee in particular - has implemented: initiating TFL, repealing REDUX, eliminating out of pocket housing costs, eliminating the 13.5% private sector pay gap, and implementing significant improvements for disability retirees and survivors.

What concerns MOAA and should concern the Committee is what else the Pentagon is now adding to the calculation. When examining figure 5-1's footnotes, they include: child care and

youth programs, warfighter and family programs, Morale, Welfare and Recreation, tuition assistance, other voluntary education programs, the commissary subsidy, family housing, unemployment compensation, and the Defense Health Program's RDT&E, procurement, and military construction.

We believe procurement and construction as well as family readiness programs should not be included in the equation as traditionally they have not, but we leave that up to the Committee to decide. If you do, then the Services should provide the same analysis in proper context – what was the cost share of the budget with these programs since 1980?

Future Forecast

DoD witnesses have stated personnel costs are unsustainable on the current rate of growth. At a January 28, 2014 hearing before this Committee, Navy Admiral and Vice Chairman of the Joint Chiefs of Staff James Winnefeld, Jr., stated, "We are trying to slow the growth of military compensation. The trajectory we have been on over the last decade, though necessary to address a deficit we were in, is not sustainable."

The problem is that DoD and other analysts use the growth rate of the past decade to forecast the growth rate for the next two or three which is very misleading.

We think the Committee should **ask DoD the hard question**: "How is the Pentagon projecting growth over the next decade or two?" If they are using the last decade's cost growth as the inflation factor for future growth, MOAA believes this is flat wrong.

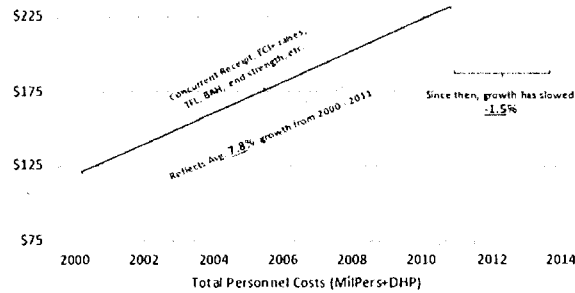
Since 2000, Congress worked for ten straight years to restore military pay comparability, repeal retirement cuts, zero-out housing costs for currently serving and their families, and restore promised healthcare coverage for older retirees. Yes, these fixes cost money, but they were needed to fix retention and readiness problems of the past.

As outlined in our written statement, between 2000 and 2011, personnel and health care costs experienced an average rate of growth of approximately 7.8% annually.

However, between 2011 and 2014, cost growth has slowed and actually declined at an average rate of 1.5% per year (see chart next page).

Personnel & Health Care Growth Rate

Since 2000 in \$ Billions



Source: OMB Historical Tables 3.2 and 16.1

Over the next decade or two with no need for any further restoration of compensation, we believe that personnel costs will continue to consume the same share of the budget, and may drop further based on planned end strength reductions.

Loss of Purchasing Power

During the Senate Armed Services Committee hearing on May 6, 2014, Senator Kelly Ayotte asked the Joint Chiefs to comment on MOAA's analysis showing the loss of purchasing power that the FY 2015 budget proposals would have on an E-5 with a family of four.

Our analysis shows that the loss of purchasing power would be \$5,000 annually; however, the Chief of Naval Operations (CNO), Admiral Jonathan Greenert (USN), responded that his analysis of "literal pay" reflects a 4% loss of purchasing power, or a \$2,500, not a \$5,000, loss.

We reached out to the CNO's staff for clarification to verify if his analysis reflects **all** the proposals and received validation that only pay caps and changes to the housing allowance were included. Instead of providing an "apple to apple" comparison, the response did not adequately answer the Senator's question.

In our analysis we included the pay caps for FY 2014 and FY 2015 but do not the remaining four caps over the FYDP.

Between the FY 2014 and FY 2015 pay caps, proposed BAH reductions, reductions in commissary savings, and new TRICARE fee structures, an E-5's family of four would experience a loss of nearly \$5,000 in purchasing power annually; and an O-3's family of four would experience a loss of nearly \$6,000 (see chart below).

Annual Loss of Purchasing Power from FY 2015 budget proposals (Active Duty family of four with 10 years of service)		
	E-5	O-3
Loss of Basic Pay*	\$593	\$1,130
Basic Allowance for Housing	\$1,224	\$1,584
Commissary	\$2,970	\$2,970
TRICARE	\$206	\$206
Total annual loss	\$4,993	\$5,890

*FY 2014 and FY 2015 aggregate loss

Our analysis for the four areas was developed by:

1. Loss of Basic Pay: MOAA used the FY 2013 and FY 2014 pay tables to develop the aggregate loss of basic pay. These are very conservative numbers as we only included two years of pay caps (FY 2014 and FY 2015), not the six years the Pentagon is planning.
2. BAH: DoD provided MOAA the impact to an E-5 (\$102 per month x 12 = \$1,224) and an O-3 (\$132 per month x 12 = \$1,584) of the BAH reductions once the full implementation takes effect (FY 2017) during a teleconference call in March.
3. Commissary: MOAA developed the number based on DeCA's reported savings for a family of four that exclusively shops at the commissary. DeCA reports that a family of four realizes a \$4,500 savings annually. In the DoD Budget Overview (pg. 5-6), it outlines that the savings patrons realize at the commissary is 30%. Proposed changes will provide a 10% savings to patrons. A 66% loss in savings (from 30% to 10%) will result in an annual lost purchasing power of \$2,970. $\$4,500 \times .66 = \$2,970$.
4. TRICARE: Extracted from the FY 2015 Defense Budget Overview, pg. 5-13. DoD's shows that the consolidated plan would increase costs to a family of four to \$364 compared to the current cost of \$158 ($\$364 - \$158 = \206).

Summary

Again, we thank the Committee for holding this very important hearing and hope our analysis will help during the upcoming mark-up process.

General Martin Dempsey, chairman of the Joint Chiefs, stated during the hearing that, "There's nothing left under the mattress," referring to where else the Service Chiefs could find cuts.

Has the Pentagon looked at all areas to find savings? We don't think so, especially in the acquisition world where the status-quo continues to bleed taxpayer dollars from inefficiencies.

Senator John McCain put it best when he stated on the senate floor on May 5, 2014, "I will repeat that for the benefit of the Pentagon, my colleagues here in the Senate, and the American people. The Government Accountability Office says the cost of the Pentagon's major weapons systems, of which there are 80 in total, have swollen to nearly one-half trillion dollars – that is T, trillion dollars – over their initial price tags – their initial cost estimates – and have average schedule delays of more than 2 years. That is not acceptable. That is not acceptable to the American people, it should not be acceptable to Members of Congress, and it sure as heck shouldn't be acceptable to the people who are responsible for these cost overruns."

MOAA remains concerned that the Pentagon is repeating some of the very same mistakes that led to significant recruiting and retention problems in the late 90s and undoing the needed compensation improvements Congress implemented since 2000 to match the extraordinary demands and sacrifices of military service and a military career.

What's needed is to sustain pay and benefits for the men and women in uniform and their families as well as those that have faithfully served two decades or more.

Again, we thank the Committee for holding this very important hearing and hope our analysis will help during the upcoming mark-up process.

Chairman LEVIN. I think many of us up here do not like sequestration. You have heard me and you have heard others say that it is an abominable way to budget. It was never intended to take effect.

We are going to be offering alternatives to sequestration. We have been talking about this now for a long time, working on alternatives for a long time, including frankly closing some of the tax loopholes in our law which do nothing in terms of productivity but are simply tax avoidance loopholes that I and many others believe should be closed. That would be part of an alternative. We also have to do something in the entitlement area as well.

But all of the burdens so far of reductions have fallen on discretionary accounts. There has been nothing done on the revenue side. We have to, I believe, address that. I would hope that when we come up with a specific bill, that we will send it to you and your organizations and that you would then indicate to us whether you can support these kind of alternatives to sequestration because I happen to agree with Senator King who phrased it I believe earlier today about the fact that we talk a lot about getting rid of sequestration, but we have not done much about it. We put in effect these budget caps. Nobody else. We can do something to change them. So we will send you those proposed alternatives.

Next would be the following, whether or not you could right now indicate which of these proposed changes in these personnel accounts are the most problematical, if you are able to prioritize them. I know you probably do not like any of them, and I can understand why. They all have consequences. But if you could very briefly indicate if you are able to say which of the ones that are in the budget proposal are the worst or the most problematical from your perspective. Why do we not start at the other end, but we will get to all four of you. Very briefly. I only have about a minute left. General McKinley?

General MCKINLEY. Thank you, Mr. Chairman.

I think from our membership's perspective and that of our chairman, we felt that the COLA at 1 percent was a valid approach. As General Sullivan said, I think we need to look into the out-years, that we cannot sustain that over a period of time.

TRICARE, commissary, and other issues obviously are a concern to our members. But none of them rose to the level of maintaining a strong and viable Air Force. I think if I could leave you with one point, members do not join the Service, at least the Air Force, for pay, benefits, and compensation. They join because of a patriotic duty to their Nation. Over time, we have seen adequate compensation provided to our military members. I think we need to look very carefully over the next 10 years, look at what the Congressional Budget Office is talking about in terms of the rapid growth in some of the programs like TRICARE and things like that. But overall, our members want to see a strong, viable, modernized, ready Air Force.

Thank you.

Chairman LEVIN. Thank you.

Admiral Totushek?

Admiral TOTUSHEK. We did a survey, as I said, and 90 percent of the respondents had a problem with something. The one that

was the biggest impact was the COLA actually for them. Second was TRICARE. The last was BAH.

As far as the commissary is concerned, the thing that I kept hearing was there are efficiencies to be had, but I do not see a forcing function that is going to require DECA and the commissaries to take those efficiencies just instead of doing the easy thing and raising prices. Unless we have something in place for that, we are going to have that problem as well.

Chairman LEVIN. Thank you.

General Sullivan, do you have a priority list?

General SULLIVAN. We did sign up for the COLA at 1 percent because we felt that General Odierno and Secretary McHugh could buy back readiness. We were less enthusiastic about the others. Our approach was to go with the COLA.

Chairman LEVIN. Thank you.

General Tilelli?

General TILELLI. Sir, in a real sense, these structural changes that we are talking about are a reduction in compensation, earned benefits. To prioritize them prior to what we believe Congress' intent was, the commission who is going to look at all of this, is preemptive. We can continue to piecemeal year on year benefits, compensation for retirees, servicemembers, survivors, and pretty soon you have created a volunteer force that is no longer viable.

At this point, I support the commission and a true vetting of their recommendations before we prioritize anything. In a real sense, I believe waiting the year is very important to the men and women who serve to keep the faith with them.

Chairman LEVIN. Thank you.

I take it from your nodding your heads that when I talked about sending you proposals to get rid of sequestration, you indicated that your organizations would be willing to take a look at them.

General TILELLI. Yes, sir.

General SULLIVAN. I want to make one point. I did not sign up for every year capping pay. It was 1 year.

Chairman LEVIN. I understand. I think that came through very clearly. Thank you.

Senator Inhofe.

Senator INHOFE. Mr. Chairman, one observation, two quick questions. I will not even take my full 4 minutes.

First of all, we got into this mess because here we have 16 percent of the budget having to take 50 percent of the cuts. That is the problem that we have. It is one that is a political problem that we cannot seem to address.

General Sullivan and General Tilelli, you said back on January 28 that given the choice between compensation and strong national defense, strong national defense wins. I assume the other two of you agree with that?

Okay. Here is the problem. I look at strong national defense. That is going to have to be modernization, training, and readiness, and that is where we are not keeping up. I am going to ask the four of you if you agree with the statement by Acting Deputy Secretary of Defense Christine Fox when she said our men and women are the first to say that they are well compensated, that DOD does not have money to maintain their equipment or supply them with

the latest technology or send them to get the training that they need and then they are being done a disservice. Do you agree with that? I do too.

The last thing I would mention, would you all agree since we have this MCRMC that is supposed to report back February 2015, that it might be a little presumptuous to try to do something in this year's NDAA that could constrain the commission with the recommendations that they are studying? They might have to undo something that we have done in order to come up with their recommendations. Do you agree with that?

General TILELLI. Absolutely. I agree with that, and I would hope that we have the opportunity to vet that along with Congress as we look at it for our servicemembers.

Senator INHOFE. Good.

Thank you, Mr. Chairman.

Chairman LEVIN. Thank you very much, Senator Inhofe.

Senator Reed?

Senator REED. First, let me thank you all for your great service to the Nation and to the men and women you represent.

One of the issues here is looking ahead regardless of sequestration. Frankly, you are preaching to the choir. We have to get rid of sequestration. Even if we eliminate sequestration, there is a lot of analysis that suggests that growing personnel costs will continually erode training, modernization, and we know that is critical also. Echoing the chairman, we have to get a handle on these numbers.

Today, we heard Admiral Greenert suggest that 50 percent of every dollar goes to personnel costs in the Navy. It is going to go up to 60 percent and then 70 in about a decade. I know a little enough about numbers to suggest it all depends what you are measuring.

Admiral, you mentioned a 33⅓ percent constant figure. Is that Active Duty service? Is that the fully discounted cost of a servicemember?

Admiral TOTUSHEK. If you look over the last 30 years—and that is in my testimony for the record—at Total Obligation Authority as opposed to the cost of our men and women—and that is total cost, it is about 30 percent. It went up to about 33, but remember, over these last 10 years, we have increased the size of the force tremendously. You obviously are going to have larger costs, and the percentages pretty much have stayed the same.

As General Tilelli said, we actually have seen a downtick now in the actual costs for DOD.

Senator REED. We cannot settle it in the next 2½ minutes, but this issue of the right metric, of the right measure, which we all agree upon, is going to be absolutely critical going forward. I thank you and will ask you again as we define what we are measuring that we are consistent so we have a baseline. That I think will help us a lot.

Another issue here which we have all touched upon in our question and comments and the chiefs did also. I think we are of the vintage where we remember post support. I was shocked going up to the Navy base at Newport and having the commander, a relatively young captain, apologize to me because the grass would be

little longer because the contractors will not be here as often. I said “contractors cut grass?”

But what General Odierno and others suggested too is that if we do not get a handle on some of these costs—it is going to be mundane initially—you are going to see the old issue of 1 month not seeing your troops in a given month because they are cutting grass and painting rocks. That is not the force that we have trained today. These are superb professionals because every day we try to get every bit of training, every bit of—and that is a cost that we have to look at going forward. I do not have much time remaining, but I just want to put that one on the record too.

But I thank you again for your service, your excellent testimony, and for what you do for the men and women who served and continue to serve. Thank you.

Chairman LEVIN. Thank you, Senator Reed.

Senator Sessions.

Senator SESSIONS. I will just thank you all. I appreciate your contributions to this discussion. It is very important. We need an outside view from some former insiders, and I think that helps us.

The BCA includes the sequester. It was passed in August 2011. We are projecting to increase spending over the next 10 years by \$10 trillion. The BCA allowed it to increase by \$8 trillion not \$10 trillion. But as Senator Inhofe said, half the cuts fell on defense. Particularly because it was so rapid, it becomes destabilizing, and I wish we could have done better.

I one time proposed just increasing defense at 1 percent a year every year instead of going out—and other big cuts and going up at 2½ percent a year, which we will soon be in track to do.

Thank you all for sharing this. The debt threat to America is real, but we do not need to break the faith with the men and women who say “yes, sir,” and go to be deployed to the worst areas on the globe at great risk.

Thank you.

Chairman LEVIN. Thank you, Senator Sessions.

Senator King.

Senator KING. Very briefly, Mr. Chairman.

I want to thank you gentlemen for joining us today and hope that you can stay engaged in this issue. One question is, are you being consulted? Have you been consulted by this commission? Have you had an opportunity to testify and provide your input?

General MCKINLEY. Yes, sir, AFA has and we have also been consulted by DOD. It is very helpful.

Senator KING. We certainly want that to continue and we want your good thoughts as we try to work through this.

You understand the box that we are in. The Chiefs presented it very well, that if we do not make these changes, then we have to take the money from somewhere else. We do not have the luxury of saying, “oh, well, we will just add to the budget,” unless we are able to do something about sequestration.

I appreciate the statesman-like view that you took, for example, General, saying that you understand that. It is a tradeoff between readiness, training, and compensation.

With that, I just hope you will stay engaged with us and help guide us through this difficult set of decisions. I appreciate your joining us here today. Thank you.

Chairman LEVIN. Thank you very much, Senator King.

We have received statements from outside groups and individuals, including from the following: the National Military Family Association, the Reserve Officers Association, and the Reserve Enlisted Association. They, and any other statements which may be submitted to us, will be made part of the record.

Chairman LEVIN. We thank you for your service in and out of Government.

We will stand adjourned.

[Whereupon, at 12:58 p.m., the committee adjourned.]

[The prepared statement of the National Military Family Association follows:]



Statement

of the

NATIONAL MILITARY FAMILY ASSOCIATION

Before the

**UNITED STATES SENATE
ARMED SERVICES COMMITTEE**

May 6, 2014

**Not for Publication Until Released by
The Committee**

The National Military Family Association is the leading nonprofit organization committed to strengthening and protecting military families. Our 45 years of accomplishments have made us a trusted resource for families and the Nation's leaders. We have been at the vanguard of promoting an appropriate quality of life for active duty, National Guard, Reserve, retired service members, their families and survivors from the seven Uniformed Services: Army, Navy, Air Force, Marine Corps, Coast Guard, and the Commissioned Corps of the Public Health Service and the National Oceanic and Atmospheric Administration.

Association Volunteers in military communities worldwide provide a direct link between military families and the Association staff in the Nation's capital. These volunteers are our "eyes and ears," bringing shared local concerns to national attention.

The Association does not have or receive federal grants or contracts.

Our website is: www.MilitaryFamily.org.

Chairman Levin, Ranking Member Inhofe, and Distinguished Members of the Committee, the National Military Family Association thanks you for the opportunity to present testimony concerning military compensation. After more than 13 years of war, we continue to see the impact of repeated deployments and separations on our service members and their families. New stressors from sequestration budget cuts and threats of downsizing are threatening the well-being of military families.

We appreciate the creation by Congress of the **Military Compensation and Retirement Modernization Commission**. We feel it is imperative that its charter be honored. It was formed to examine the entirety of the military compensation system. We have provided input to the Commission on issues important to military families and suggested alternatives that could enable the Department of Defense (DoD) to provide benefits and family support services more effectively. We are not necessarily opposed to changes in the compensation system if they are made after thoughtful research and consultation and careful study about how the changes in individual elements of the system affect the whole. A piecemeal approach will not work. We expect the commission process to be respected and the recommendations thoughtfully considered in consultation with all the stakeholders.

We have chosen to focus our statement on issues affecting current service members and their families.

Executive Summary

The United States military is the most capable fighting force in the world. Over more than a decade of war, service members and their families never failed to answer the call, gladly sacrificing in order to protect our Nation. They made these sacrifices trusting that our government would provide them with resources to keep them ready. Recent national fiscal challenges have left military families confused and concerned about whether the programs, resources, and benefits contributing to their strength, resilience, and readiness will remain available to support them and be flexible enough to address emerging needs. The Department of Defense (DoD) must provide the level of programs and resources to meet this standard. Sequestration weakens its ability to do so. Service members and their families have kept trust with America, through over 13 years of war, with multiple deployments and separations. Unfortunately, that trust is being tested. The Fiscal Year 2015 (FY15) budget proposal put forward by the Administration will undermine military family readiness in fundamental ways, by cutting families' purchasing power and forcing them to bear more of their health care costs. At the same time, looming cuts mandated by sequestration threaten the programs and services they rely on for support. Our Association makes the recommendations in this statement in the name of supporting the readiness of military families and maintaining the effectiveness of the all volunteer force. We ask the Nation to keep the trust with military families and not try to balance budget shortfalls from the pockets of those who serve.

We ask Congress to:

End sequestration, which places a disproportionate burden on our Nation's military to reduce the deficit.

Let the Military Compensation and Retirement Modernization Commission (MCRMC) do its job in evaluating compensation, including health care, Basic Allowance for Housing (BAH), and commissaries, holistically.

As you evaluate the proposals submitted by DoD, consider the cumulative impact on military families' purchasing power and financial well-being, as well as their effects on the morale and readiness of the all volunteer force now and in the future. We ask you to:

- reject budget proposals that threaten military family financial well-being as a way to save money for the government.
- keep military pay commensurate with service and aligned with private sector wages.

- oppose shifting health care costs to active duty family members. We especially ask you to oppose any TRICARE change that will create a barrier to military families' access to behavioral health care. Ensure families of all seven Uniformed Services have timely access to high quality, affordable health care and a robust TRICARE benefit including preventive health care services.
- protect the 30 percent savings military families receive when shopping at the commissary by continuing the annual appropriation to support the system at its current level. Commissaries are part of compensation and provide important savings for military families. Before any decisions are made to change the commissary benefit, a study should be conducted to determine the value of the benefit.
- ask DoD how the reduction in BAH payments will impact the contracts that have been negotiated with the privatized housing contractors. Will this result in fewer services, reduced maintenance or families paying over and above their BAH for their privatized housing?

We have addressed the immediate and long term impacts of the proposed FY15 budget on military families. Our Association also asks Congress to make improving and sustaining the programs and resources necessary to keep military families ready a national priority. We ask Congress to:

- Provide oversight to ensure DoD and the individual Services are supporting families of all components by meeting the standards for deployment support, reintegration, financial readiness, and family health in Department of Defense Instruction (DoDI) 1342.22. Fund appropriately at all levels. Special attention needs to be paid to the flexibility for surge capabilities.
- Ensure adequate funding for military child care programs, including child care fee assistance programs.

Keeping the Trust of Military Families

America's all volunteer force is the most capable fighting force in the world. Over more than a decade of war, service members and their families have heroically answered our nation's call to serve. Their sacrifice - of life, limb, and family - is offered selflessly, trusting in the steadfastness of our government to provide for their readiness and the needs of their families.

Many military families feel their sacrifices go unnoticed by civilian society, which is consumed with domestic concerns such as the economy and unemployment. Military families share those concerns. But they also feel the Nation is forgetting the price they alone have paid in 13 long years of war.

Trust in government is essential to the long term viability of the all volunteer force. That trust is reinforced through the predictability, efficiency, and fairness of compensation and benefits. Since 2006, throughout the wars in Iraq and Afghanistan, the Administration has proposed various benefit "reforms," mostly in health care, which would have increased the financial burden of those who have served. The changes proposed in the Fiscal Year 15 (FY15) budget, coupled with the arbitrary reductions forced by sequestration affect the families of those who serve now and undermine the trust military families have in the government's commitment to support the all volunteer force over the long term. This is a price the Nation cannot afford to pay.

The Administration's proposals to cut pay increases, reduce housing allowances, eliminate commissary savings, and increase health care costs pose significant risk to the financial well-being of military families. Congress must resist these changes. **Service members and their families should not be asked to pay the bill for their own readiness.**

The forthcoming report of the Military Compensation and Retirement Modernization Commission (MCRMC) should become a catalyst for a broad discussion of military compensation and benefits for future generations. Taxing those currently serving, and those who have served, in order to finance other priorities, is wrong headed and unacceptable to military families. We ask Congress to honor its commitment to military families and not to balance budget shortfalls on the backs of those who serve.

"The all-volunteer force is comprised of people who trust -- they trust that we will treat them with dignity, respect, and due regard for their overall well-being. This trust is priceless. This trust puts in place the greatest weapons system we can provide the sailors of the United States Navy. That weapons system is called unit morale."

Master Chief Petty Officer of the Navy (MCPON) Mike Stevens

Sequestration: An Ongoing Threat to Family Readiness

The effects of sequestration have already resulted in cuts to benefits and programs that military families have come to rely on. Much of the funding for these programs is embedded in the Service Operations and Maintenance Accounts, which have been the hardest-hit by sequestration. Understanding what is affected by sequestration has been confusing for families. Our Association used social media to help military families tell truth from fiction and to keep them up to date on how sequestration would affect them. Our families used social media to voice their frustration about sequestration's effects on their service members' ability to do their jobs and on the damage caused to the military community. Military families were impacted by sequestration with cuts to services and the threat of closure of DoD schools when civilian workers were furloughed and hiring was frozen. Sequestration limited the availability of health care appointments because furloughs of civilian medical staff resulted in reduced hours of operation at military hospitals and clinics. Military families reported longer wait times for appointments and delays in obtaining treatment. Some were told to go to the emergency room for acute care that would normally be handled at the MTF.

When we speak to military families about sequestration, one of their major areas of concern is child care. Service members who rely on installation child care centers worry centers will reduce their operating hours or turn more families away. Families who use the fee assistance program wonder if those funds

will still be available. We have already heard from families that child care respite programs for families of deployed service members are being phased out. Other locations have curtailed or eliminated hourly or drop-in care. Losing these services is a particular hardship to families overseas or in remote locations, who may have few child care alternatives.

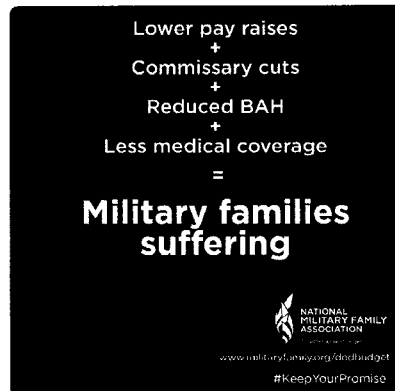
Impact Aid was one of the first casualties of sequestration cuts, because unlike other education programs, Impact Aid is current-year funded. Over the course of the past year, we heard reports from school districts facing significant funding cuts due to sequestration. For example, the Killeen Independent School District, which serves 18,000 military children, faced the loss of more than \$2.6 million in 2013. Our Association thanks Congress for restoring \$65 million to the Department of Education Impact Aid program in the FY14 Consolidated Appropriations Act. This funding is critical to public school districts educating large numbers of military children. However, we continue to be concerned about the long-term consequences the spending caps imposed by the Budget Control Act (BCA) will have on school districts reliant on Impact Aid.

While the Bipartisan Budget Act of 2013 provided some relief, we know that with future cuts required down the road, military families will continue to see cuts and threats to the programs and resources they require for readiness.

We ask Congress to end sequestration and end the threat to the resources military families depend on for their readiness.

The Administration Budget Proposal: A Disaster for Military Family Pocketbooks

The Administration's budget proposal has only added to the growing sense of frustration in the military community. Military families are financially savvy. They are doing the math and feel they are shouldering the burden for balancing the budget when they've shouldered the entire burden of the last 13 years of war. They should not have to pay the bill to finance their own continued readiness.



Pay Raise

For the second year in a row, the Administration is proposing a pay increase of only 1 percent, below the level of private sector wage increases. The Employment Cost Index (ECI) was chosen as the standard for active duty pay raises in order to recruit and retain the quality of service members needed to sustain the all-volunteer force. What's changed?

We ask Congress to keep military pay commensurate with service and aligned with private sector wage increases.

Basic Allowance for Housing

Under the Administration proposal, service members will receive 95 percent of the Basic Allowance for Housing (BAH) for their rank and location resulting in greater out of pocket housing costs. This “slowed growth” of the BAH will affect families whether they rent or own their own home. We appreciate the lower BAH will not affect a military family until their next duty assignment, but are concerned about the long-term impact on families’ ability to find and pay for appropriate housing.

BAH is paid at a with-dependent or without-dependent rate and varies based on the service member’s rank and the rental and utility costs for housing within a reasonable commuting distance of where the service member is assigned.

What will be the effects of lower BAH rates on privatized housing? Right now, the rent for privatized housing is tied to the BAH rate for each rank. Privatized housing has been a good deal for the government and for military families. If the amount paid to the contractors is reduced, what will that mean in terms of maintenance and renovation down the road? Will military families be responsible to pay the difference between rent and BAH?

Please ask the Department of Defense how the reduction in Basic Allowance for Housing (BAH) payments will impact the contracts that have been negotiated with the privatized housing contractors. Will this result in fewer services, reduced maintenance, or families paying over and above their BAH for their privatized housing? What will the long-term impact on families’ ability to find and pay for appropriate housing?

Commissaries

Our Association believes that the 30 percent savings available to military families who regularly shop at the commissary is an important part of compensation. Re-engineering the way the commissary does business by reducing the appropriation and thus raising prices wreaks havoc with a system that has been recognized as a model of efficiency. In 2011, the commissary saved customers more than \$2.79 billion,¹ with a cost to the Department of Defense (DoD) of only \$1.34 billion. In 2013, the commissary continued to provide \$2.08 in savings to patrons for every \$1 of appropriations.² Why would the government want to cut a program that returns twice the value to customers that it costs DoD to provide?

Military families appreciate that efficiencies must be found, especially to preserve readiness. However, the commissary is not just a quality of life program that can be downsized. It, too, is intended “to support military readiness, recruitment, and retention” (10 U.S.C. §2481). While other readiness programs have had to grow in cost to support growing numbers of service members and patrons, the government contribution for the commissary has stayed relatively level.

DoD proposes commissaries take on a business model closer to that used by the exchanges. The exchanges operate on a for-profit model that allows them to set prices above cost, currently prohibited by law to the commissary. Furthermore, the exchanges and commissaries carry few of the same products and serve entirely different purposes. Profits from the exchange are used for operations and help fund Morale, Welfare and Recreation (MWR) programs. We wonder if military installations would be able to support two for-profit entities in their environs, especially if they carry duplicate products. We wonder what the effect will be on contributions to MWR when the commissary starts selling more of the same products as the exchange. If the purpose of the commissary system is to support service members and families by selling groceries at cost plus a surcharge for construction and renovation, why is raising prices acceptable?

¹ http://www.commissaries.com/press_room/press_release/2012/DeCA_28_12.cfm

² http://www.commissaries.com/press_room/press_release/2014/DeCA_01_14.cfm

Out of all of the cuts in the FY15 budget proposal, many families tell us the reduction in commissary savings is what will prove most detrimental to their financial well-being. Even with the 10 percent savings proposed by DoD, a family of four that shops regularly at the commissary would lose at least \$200 per month.³

I think it's personally ridiculous that we're going to go after something that saves some ... young lance corporal, ... \$4,500 a year for every time he walks in there -- he's got two kids and every time he ... shops it's \$240. Well, ... he just put \$80 worth of gas into his car and he doesn't even know it.

Sergeant Major of the Marine Corps Micheal Barrett

Military families tell us they rely heavily on the commissary savings and appreciate the good deal they get. Some tell us they don't use the commissary often due to distance, unfamiliarity, or inconvenience and they may not realize the overall savings they can achieve. For service members who qualify for the Supplemental Nutrition Assistance Program (SNAP) or the Women, Infants and Children (WIC) nutrition program, using the commissary allows families to stretch their benefit and provides a buffer to the many others who may be teetering on the financial edge. The many who use the commissary tell us they not only value this benefit, they do not know how they would provide for their families without it. Recently, a family member told us,

Anyone who says the commissary is unnecessary has never tried raising a family on \$1,400/month and has never been on recruiting duty. The commissary is a budget lifesaver.

Senior leaders tell us they will not close commissary stores as part of this proposal. But when military families lose their savings at the commissary, they will stop shopping there. Fewer patrons will reduce the ability of the commissary system to leverage economies of scale – the revenues generated at the larger commissaries such as Fort Belvoir allow the family shopping in a smaller commissary in Guam or Dugway, Utah, to realize the same savings. This will have tragic consequences for a system that currently works. Military families need savings; they don't need just another grocery store that is convenient to where they live!

Protect commissary savings by continuing the annual appropriation to support the system at its current level. Commissaries are part of compensation and provide important savings for military families. Before any decisions are made to change the commissary benefit, a study should be conducted to determine the value of the benefit.

Consolidated TRICARE Health Plan

Our Association opposes shifting health care costs to active duty family members. We are particularly troubled the Consolidated TRICARE Health Plan proposal does not spread these costs evenly among all beneficiaries. Rather, the additional out of pocket expenses will be concentrated among those who cannot receive care at a Military Treatment Facility (MTF) and special needs families who require extensive specialty care. Even though the Consolidated TRICARE Health Plan proposal suggests the impact on families will be modest, we believe the proposed plan will have a significant negative impact on those populations mentioned above. We also firmly oppose any policy that will create a barrier to military families' access to behavioral health care. The Consolidated TRICARE Health Plan raises many unanswered questions and significant concerns that it will ultimately result in diminished access to care for military families.

³ Current estimations show that a military family of four shopping regularly/exclusively at the commissary saves \$3600/4500 annually (http://www.commissaries.com/press_room/fast_facts.cfm).

The Consolidated TRICARE Health Plan proposed in the FY15 budget would eliminate the current TRICARE managed care and fee-for-service options (Prime, Standard, and Extra) and replace them with a cost sharing structure for everyone including active duty family members.

Active Duty Family Member Outpatient Cost Sharing for Consolidated TRICARE Health Plan effective January 1, 2016

Services	MTF Co-Pays		TRICARE Network Co-Pays		Out of Network Cost Share ^a
	E4 & below	E5 & Above	E4 & below	E5 & Above	All ADFMs ^b
Clinical Preventative Services	\$0	\$0	\$0	\$0	\$0
Primary Care Visit	\$0	\$0	\$10	\$15	20%
Specialty Care Visit ^c	\$0	\$0	\$20	\$25	20%
Urgent Care Center	\$0	\$0	\$25	\$40	20%
Emergency Dept	\$0	\$0	\$30	\$50	20%
Ambulance	\$10	\$15	\$10	\$15	20%
Ambulatory Surgery	\$0	\$0	\$25	\$50	20%

- a. Out of Network Cost Share = Percentage of TRICARE maximum allowable charge after deductible is met
- b. ADFM = Active Duty Family Members
- c. Specialty Care Visits include physical therapy, occupational therapy, and **behavioral health**
- d. Cost sharing is higher for retirees and their families
- e. Service members will still pay no out-of-pocket costs

Currently, the 79 percent of active duty family members enrolled in Prime⁴ pay no cost shares for treatment received at an MTF or from civilian providers in the TRICARE network, assuming the beneficiary follows TRICARE referral and authorization policies. Previous reform proposals have focused on retirees. The FY15 proposed Consolidated TRICARE Health Plan reform will create unavoidable out of pocket health care costs for many active duty families, driven largely by their geographic location, health care condition, and ability to access care in an MTF.

The current TRICARE Prime referral and authorization process can be cumbersome and sometimes prevents timely access to specialty care. While we appreciate that the Consolidated TRICARE Health Plan proposal provides beneficiaries with open access to providers of specialty care, we are concerned cost will become the new barrier to accessing health care. Proposed cost shares are the lowest in MTFs,

⁴ Evaluation of the TRICARE Program: Access, Cost, and Quality, Fiscal Year 2013 Report to Congress, Office of the Office of the Assistant Secretary of Defense (Health Affairs)

higher in the network, and highest out of network. While we understand this cost structure is designed to encourage use of military clinics and hospitals, thereby improving efficiency of the Defense Health Agency's (DHA's) fixed facility cost structure, we believe it is important to understand that not every active duty family has access to a military hospital or clinic.

Some service members, for instance those in recruiting positions, are stationed far from the nearest MTF. Others are at installations where the MTF is at capacity and family members are routinely referred to the network for most or all of their care. Still other military families are at installations with limited direct care resources. For instance, when the Army reactivated the 10th Mountain Division at Fort Drum, Army leaders decided to take advantage of excess capacity in local hospitals rather than building an inpatient facility on post to serve 10th Mountain military personnel and their families. As a result, nearly 20,000 Fort Drum family members receive most of their specialty care from civilian providers because the post clinic only offers basic services. Because there is no hospital on post, Samaritan Hospital of nearby Watertown, NY, provides 90 percent of the post's inpatient care needs.⁵ With the Consolidated TRICARE proposal, Fort Drum families will face cost shares for much of their health care, not because they have chosen civilian providers, but because they do not have the option of seeking care at an MTF.

DHA has characterized the proposed cost shares as modest. However, the relatively low "per family" dollar impact the DHA presents⁶ is an average assuming cost shares are spread evenly across the beneficiary population. In reality, costs shares will be borne disproportionately by families without MTF access, those who need specialty care, and those with special needs family members. We fear that, for these families, co-pays will become a barrier to accessing necessary medical care.

While cost shares will disproportionately impact all families without MTF access, junior enlisted families will be particularly vulnerable. With their relatively lower incomes, cost shares ranging from \$10 to \$50 per visit (see chart above) will necessarily have a greater impact on their family budgets. Junior enlisted families without access to an MTF may not be able to absorb co-pays for every medical appointment. We are concerned they may elect to forego medical care to avoid the out of pocket costs.

We are pleased DoD has listened to requests for protections of benefits for those who have been medically retired and surviving spouses. Keeping their health care fees at the same level as active duty family members reflects their extraordinary sacrifice and service.

Due to their greater requirements for specialty care, the Consolidated TRICARE Health Plan will have a pronounced effect on special needs families. Many special needs families require medical care that is not typically delivered at MTFs. While special needs families enrolled in TRICARE Prime can now seek specialty care in the network at no cost, the new proposal will result in cost shares for each network appointment. Given the number of specialty appointments many of these families require, we fully expect their expenses to reach the catastrophic cap: \$1,500 for network care, \$2,500 for combined network/out-of-network care. The \$1,500 cap for network care is \$500 above the current cap for active duty military families, thus they will have to spend more for health care before DoD will pick up additional costs. This will have a significant impact on the purchasing power of special needs families.

Our Association finds the behavioral health care co-pays in the Consolidated TRICARE Health Plan absolutely unacceptable. Network behavioral health appointments are treated the same as any other specialty care with co-pays of \$20-25 per visit. Because of the heavy demand by service members in the MTF, more families have no choice but to seek care in the network. With co-pays of \$20-25 per

⁵ Defense Communities 360: Community Network Provides Inpatient, Specialty Care for Fort Drum Personnel, January 29, 2014
<http://www.defensecommunities.org/headlines/community-network-provides-inpatient-specialty-care-for-ft-drum-personnel/#>

⁶ United States Department of Defense Fiscal Year 2015 Budget Request Overview, March 2014, Office of the Under Secretary of Defense

appointment, we fear this will have a devastating effect on military families' ability AND willingness to seek behavioral health care.

Recognizing that 13 years of war has taken a toll on our community, TRICARE has made improvements in facilitating access to behavioral health care for military family members. Currently, TRICARE beneficiaries do not need referral or prior authorization for the first eight outpatient behavioral health care visits per fiscal year.⁷ This has allowed military family members to more easily access critical mental health resources. TRICARE Prime family members currently incur no costs for behavioral health care whether they access it at an MTF or in the network.

Our Association believes it is imperative that behavioral health care, whether it is delivered in the Military Treatment Facility (MTF) or in the network, continues with no out of pocket costs for active duty military families.

The Consolidated TRICARE Health Plan is designed to increase demand for MTF health care. We are concerned about how this increased demand will be managed. How will active duty families be prioritized within the MTF? Will they face longer waits for appointments? Will acute care be available when needed? We fear military families' access to care will be hampered by the increased demands placed on the MTFs.

In addition to the concerns outlined above, our Association has many unanswered questions about the proposed TRICARE Consolidated Health Plan and its potential impact on military families, including:

- What modifications will be needed to the current TRICARE Managed Care Support Contracts to implement these changes? Will there be changes in requirements for the contractors to build and maintain networks and to keep accurate listings of which providers are in the network?
- What resources will remain in place for the management of complex illnesses or conditions where coordinated care is needed? Where will that responsibility reside, with the MTF or the TRICARE contractor?
- Will military retirees and their family members with Other Health Insurance (OHI) who wish to use TRICARE as a second payer be required to pay the same participation fee as those who want to keep TRICARE as their primary insurance?
- Will there be changes in how network maternity care will be reimbursed? Maternity is generally a bundled benefit with different cost sharing. For example, instead of paying a co-pay for each doctor's visit, the doctor accepts a flat amount, regardless of the number of visits and the mom pays a percentage of the fee. Also, maternity hospitalization has a different rate for mom and then for baby, generally less than traditional hospitalization. How will this be handled?
- What will be the cost to the Services/MTFs to create systems to process co-payments by retirees and their families?
- How much savings will the Consolidated TRICARE Health Plan provide to DoD?

The National Military Family Association strongly asserts that any discussion of military health care, especially its costs, must make a distinction between the health care readiness needs of service members versus the earned health care benefit provided to family members, retirees, and survivors. Ensuring the physical and mental health of service members so they can perform their mission is a readiness cost and not part of the compensation package.

Likewise, the health care costs associated with wartime operations or the care of wounded, ill, and injured service members should not be included as part of the cost of providing a health care benefit to the children, spouses, and surviving family members of service members and retirees. Our Association believes DoD, in its statements about the rising costs of the military health care benefit, has not effectively differentiated health care readiness costs from the costs of providing the earned health care

⁷ TRICARE Behavioral Health Care Resources Fact Sheet

benefit. This failure, we believe, puts both the readiness function and access to care for family members and retirees at risk.

The military health care system—because of its dual readiness and benefit provision missions—does not function like civilian plans. The TRICARE benefit includes both direct care provided by MTFs as well as coverage that enables military families to access health care within the civilian community.

Access to care is also impacted by TRICARE's reimbursement policies. We believe TRICARE's reimbursement policies should be comparable to commercial and other government plans. They should align with current standards of medical care. Furthermore, they should be flexible enough to accommodate changes in medical technologies and treatment protocols.

Ensure families of all seven Uniformed Services have timely access to high quality, affordable health care and a robust TRICARE benefit including preventive health care services.

Affordable and timely access to health care is important to all families, but it is vital for military families. Repeated deployments, caring for the wounded, ill, and injured, the stress and uncertainty of military life, and the ability to maintain family readiness, demand quality, and readily available health care. A robust and reliable health care benefit allows families to focus on managing the many challenges associated with military life versus worrying about how they are going to access and pay for essential health care. Any changes to the military health care benefit must recognize the unique conditions of service and the extraordinary sacrifices demanded of service members and their families.

A Holistic Approach Is Needed

We firmly believe the Administration's FY15 budget proposal did not consider the cumulative effects of a reduced pay raise combined with lower BAH payments, loss of commissary savings, and possible out-of-pocket health care costs on the purchasing power of service members and their families. This budget proposal would reduce cash in a service member's pocket!

We ask Congress to reject budget proposals that threaten military family financial well-being as a way to save.

Let the Military Compensation and Retirement Modernization Commission (MCRMC) do its job in evaluating compensation, including health care, holistically.

Keeping Military Families Ready: What do Military Families Require?

We have addressed the immediate and long-term impacts of the proposed FY15 budget on military families. But we ask you not to forget that military families depend on a variety of programs and resources that must be sustained and, in some cases, improved.

The National Military Family Association believes our Nation's leaders should guarantee the readiness of our force by taking care of service members and their families, serving in both active and reserve components, no matter where they live. We ask you to sustain support by providing: quality, accessible health care; behavioral health support; spouse career opportunities; good schools for military children; quality, affordable child care; a secure retirement; and unwavering support for those wounded, widowed, or orphaned. We challenge Congress and the Administration to join us in seeking greater collaboration between government and community agencies to enhance support and enable military families to thrive and be ready to answer any call to duty, now and in the future.

The Department of Defense created a blueprint for the framework of family readiness in DoD Instruction (DoDI) 1342.22, "Military Family Readiness".⁸ The DoDI integrates policy for core family readiness services into a single source, including requirements for financial education and counseling, relocation

⁸ <http://www.dtic.mil/whs/directives/corres/pdf/134222p.pdf>

assistance, emergency family assistance, spouse employment and requirements for delivery of services to the Reserve Components. It spells out the expectation that families be empowered to enhance their own readiness, but have the ability to access a trusted network of services regardless of branch of Service, active or reserve status, or geographic location. It changes the traditional mindset of military family support, which focused on installation-based services and created the expectation that families should come to the support rather than having the support service connect with families where they are. The DoDI emphasizes the importance of creating a family readiness system in which service members, families, other government agencies, and private organizations collaborate to support troops and families. It focuses on three areas of readiness: mobilization and deployment readiness, mobility and financial readiness, and personal and family life readiness.

Our Association believes full implementation of Department of Defense Instruction (DoDI) 1342.22 across all Services and components is essential for the readiness of both the current and future force. It sets the structure and expectations for family readiness and must be resourced appropriately.

Financial Readiness

While military families are shown to have better financial literacy rates than their civilian counterparts, their military commitments often make it difficult to grow their investments over the long term.⁹ Frequent moves and deployments can be a barrier to home ownership or force families in and out of lease agreements. Families who invest in homes must take the risk that a PCS will force them to become a landlord or support two or more housing bills without room to wait out the burst housing bubble. Spouses have reduced earning power, yet many military families are paying on one or more student loans. Frequent moves make spouses ineligible for public service loan forgiveness programs. Every time a permanent change of station (PCS) occurs, a working military spouse, or one who would like to be employed, has to start from scratch. Lack of longevity in any one location or job position negatively affects career trajectory and earning power. Frequent moves disrupt educational goals. State licensing requirements and industry tenure restrict employment opportunities for military spouses. Military spouse unemployment or underemployment affects the total earning power of the military family.

Some elements of the military compensation package are meant to take the sting out of those losses. However, as sequestration continues and budgets are cut, military families will face more and more disadvantages compared to their civilian counterparts. We ask Congress keep in mind the fiscal restraints imposed on military families when evaluating changes to the military compensation package.

Quality, Affordable Child Care

Media reports about military compensation often refer to subsidized child care as one of many "benefits" provided to military families. To our Association, this view is a mischaracterization of the role and importance of child care to the military and military families. Access to quality, affordable child care is not just a "nice-to-have" part of a benefit package. Rather, it is central to service member and family readiness.

More than 40 percent of service members have children, and the largest cohort of military children is under age five.¹⁰ Service members face the same challenges as all working parents. If child care arrangements fall through or the babysitter gets sick, a parent may find himself forced to miss work. When the parent who must miss work is in the military, his or her absence may threaten the readiness of an entire unit.

Quality child care is also essential to military family financial stability. Like most families, many military families rely on having two paychecks in order to make ends meet. However, military spouses face many barriers to employment, including distance from extended family who might otherwise be available to

⁹ http://www.usfinancialcapability.org/downloads/NFCS_2012_Report_Military_Findings.pdf

¹⁰ 2012 Demographics: Profile of the Military Community

assist with child care. Quality, accessible child care is inextricably linked to spouse employment and thus to military family financial readiness.

We appreciate that Congress and the Department of Defense have recognized the importance of child care to military families and have taken steps to make quality child care both more available and more affordable. Thanks to those efforts, military families have access to a wide range of child care options to meet their needs, from on-installation Child Development Centers (CDCs) to in-home care providers.

While installation CDCs are the preferred option for many families, they are not always a viable choice, either because of long waiting lists or because the family lives far from the installation. However, particularly in high cost areas, quality child care is often unaffordable for military families. Recognizing this need, DoD established a program to provide fee assistance to families without access to on installation child care centers. This program, operated through a partnership with Child Care Aware, has proven to be popular with families and an effective means of ensuring that families can afford quality care. Because this partnership has been so successful, we are concerned about the Army's plan to begin managing its fee assistance program itself in 2014. We intend to watch closely to ensure the transition is seamless and Army families can continue to benefit from the fee assistance program.

Ensure adequate funding for military child care programs, including child care fee assistance programs.

Military Families – Maintaining Their Readiness

We have made many recommendations in our statement today in the name of supporting the readiness of military families. Recent national fiscal challenges have left military families confused and concerned about whether the programs, resources, and benefits contributing to their strength, resilience, and readiness will remain available to support them and be flexible enough to address emerging needs. Our Association believes the Department of Defense Instruction 1342.22 must be the baseline for military family readiness. The Department of Defense must provide the level of programs and resources to meet this standard. Sequestration weakens its ability to do so.

Service members and their families have kept trust with America, through over 13 years of war, with multiple deployments and separations. We ask the Nation to keep the trust with military families and not try to balance budget shortfalls from the pockets of those who serve.

Bringing the troops home does not end our military's mission or the necessity to support military families dealing with the long-term effects of more than a decade at war. The government should ensure military families have the tools to remain ready and to provide for the readiness of their service members. But the cost of the readiness should not be borne by those service members and their families.

[The joint prepared statement of the Reserve Officers Association of the United States and the Reserve Enlisted Association follows:]

Statement for the Record
Reserve Officers Association of the United States
And
Reserve Enlisted Association
for the
Senate Armed Services Committee
DOD Military Compensation Proposals
May 6, 2014



"Serving Citizen Warriors through Advocacy and Education since 1922."™



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The Reserve Officers Association of the United States (ROA) is a professional association of commissioned, warrant and non-commissioned officers of our nation's seven uniformed services, and their spouses. ROA was founded in 1922 during the drawdown years following the end of World War I. It was formed as a permanent institution dedicated to National Defense, with a goal to teach America about the dangers of unpreparedness. When chartered by Congress in 1950, the act established the objective of ROA to: "... support and promote the development and execution of a military policy for the United States that will provide adequate National Security." The mission of ROA is to advocate strong Reserve Components and national security, and to support Reserve officers in their military and civilian lives.

The Association's 54,000 members include Reserve and Guard Soldiers, Sailors, Marines, Airmen, and Coast Guardsmen, who frequently serve on Active Duty to meet critical needs of the uniformed services and their families. ROA's membership also includes officers from the U.S. Public Health Service and the National Oceanic and Atmospheric Administration, who often are first responders during national disasters and help prepare for homeland security. ROA is represented in each state with 49 departments including departments in Latin America, the District of Columbia, Europe, the Far East, and Puerto Rico. Each department has several chapters throughout the state. ROA has more than 250 chapters worldwide.

ROA is a member of The Military Coalition, where it co-chairs the Guard and Reserve Committee. ROA is also a co-director of the National Military/Veterans Alliance. Overall, ROA works with 75 military, veterans, and family support organizations.

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The Reserve Enlisted Association (REA) is an advocate for the enlisted men and women of the United States Military Reserve Components in support of National Security and Homeland Defense, with emphasis on the readiness, training, and quality-of-life issues affecting their welfare and that of their families and survivors. REA is the only Joint Reserve association representing enlisted reservists – all ranks from all five branches of the military.

Executive Director:	
CMSgt Lani Burnett, USAF (Ret.)	202-646-7715

DISCLOSURE OF FEDERAL GRANTS OR CONTRACTS:

The Reserve Officers Association and Reserve Enlisted Association are member-supported organizations. Neither ROA nor REA have received grants, sub-grants, contracts, or subcontracts from the federal government in the past three years. All other activities and services of the associations are accomplished free of any direct federal funding.



INTRODUCTION

On behalf of our members, the Reserve Officers Association (ROA) and the Reserve Enlisted Association (REA) thank the committee for the opportunity to submit testimony on personnel compensation reform affecting serving Active and Reserve members, retirees, their families, and survivors. If arbitrary compensation and benefit cuts are permitted, not only will our memberships be affected, but they will have an influence on the next generation of recruits being sought by the Armed Forces.

General George S. Patton is credited as saying “Wars may be fought with weapons, but they are won by men. It is the spirit of men who follow and of the man who leads that gains the victory.” By cutting the compensation and benefits of the men and women who serve, the risk exists that the military will lose its best and the brightest leaders, who will seek better opportunities in the private and, perhaps even, the public sector. Manning challenges already exist in midgrade officer and enlisted ranks, which will grow only worse.

For the last ten years the military has experienced strong recruiting and retention, which has led to an over-confidence that this trend will continue. All but ignored were contributed factors of high unemployment during years of recession and the romanticism of war. With an improving economy and the conflict in Afghanistan ending, recruiting will become harder. With planned reductions in force, near-term retention will seem to not be a problem. Yet the phantom cost savings of the 1990s will again haunt this nation’s security with an ever growing risk of hollowing the force. Reducing compensation only increases that risk.

Both associations appreciate the efforts by Congress in earlier National Defense Authorization deliberations to objectively evaluate the effects of Department of Defense (DoD) recommendations for reduced compensation and increased fees and costs for benefits.

Expecting serving and retired military members and their families to carry an increased financial burden is indirectly taxing just them to pay for this Nation’s defense. It is equally unfair to tax the next generation of warriors who are just joining the uniformed services today.

SLOWING THE GROWTH:

When testifying on November 2013, DoD leadership gave the Senate Armed Services Committee a choice: compensation and benefit reform or military readiness. As General Raymond T. Odierno, chief of staff of the Army, said, “We will not be able to afford a force of sufficient capacity, readiness and modernization without compensation reform.”

Compensation reform has been a campaign by the Pentagon during the last two presidential administrations, with the first focus on increasing health care fees in 2006. Military personnel are viewed as competing for budget resources with modernization and procurement. Recently,

under the budget constraints forced by sequestration, readiness and training have been added to the casualty list.

“Although we employ fewer people, compensation costs continue to climb at unsustainable rates,” warned General Mark A. Welsh III, Air Force chief of staff at November’s hearing. “Together we must address the issue of compensation or it will consume our warfighting spending over the next few decades.”

Taken out of context, such statements can be misleading and have clouded the discussion about the defense budget. The numbers don’t support such statements (as illustrated by Table 1 – attached), but have had an unsettling effect on budget discussions.

At a meeting of the Missouri Department of the Reserve Officers Association on April 26, 2014, Rep. Blaine Luetkemeyer (R-Mo.) briefed ROA membership stating how military compensation, if it is permitted to continue its growth it will consume the entire DoD budget.

The Center for American Progress claims “if these costs are allowed to continue rising at their current rate, they will eat through the entire defense budget by FY 2039 unless the overall budget is increased to accommodate them.”

By combining different data fields and adding more items to the “shopping cart” cost assumptions can be manipulated.

At a briefing in November 2013, General James F. Amos, commandant of the Marine Corps told military service organizations that military compensation would consume over half the DoD budget within a couple of years. A statement in February 2014, by Secretary of Defense Chuck Hagel, clarified this by saying that military and civilian compensation accounts for 50 percent of the DOD budget.

Compounding the issues has been bad math. Statistical analyses further beguile by projecting upward trends that are no longer valid, using data between 2001 and 2011.

In a 2011 study, the Center for Strategic and International Studies detailed an increase of military personnel compensation costs by 47 percent, but this was between the years FY-2000 and FY-2012. Using FY-2000 as an initial benchmark is to start any comparison from a period of peace into a period of war. Additionally, the cost rise used in the study was just \$59.9 billion over 13 years of budget increases. This calculates to an annual rate of inflation of about 3.05 percent.

Many claim that military personnel costs have nearly doubled since fiscal year 2001. But during this same time the military budget was increase as well. Using the Office of Management and Budget’s numbers (Table 1). Military Compensation (Personnel, Health and Housing) increased by 76 percent when comparing the FY-2002 (beginning of the war) with the FY-2013 budget.

TABLE 1

Source OMB Histories: Table 3.2 and 16.1

Fiscal Year	Personnel Costs	Defense Health	Housing	Total Personnel	Subtotal DoD	Total Budget	Percent Subtotal	Percent Total
1980	40.9	3.7	1.68	46.28	130.91	134	35.35	34.54
1981	47.94	4.8	1.72	54.46	153.86	157.51	35.40	34.58
1982	55.17	5.8	1.99	62.96	180.69	185.31	34.84	33.98
1983	60.89	6.4	2.13	69.42	204.36	209.9	33.97	33.07
1984	64.16	6.8	2.41	73.37	220.86	227.41	33.22	32.26
1985	67.84	8.2	2.64	78.68	245.11	252.74	32.10	31.13
1986	71.51	8.9	2.82	83.23	265.44	273.37	31.36	30.45
1987	72.02	10.1	2.91	85.03	273.92	282	31.04	30.15
1988	76.34	10.9	3.082	90.322	281.89	290.36	32.04	31.11
1989	80.68	11.6	3.26	95.54	294.83	303.56	32.41	31.47
1990	75.62	12.4	3.5	91.52	286.69	299.32	31.92	30.58
1991	83.44	14.2	3.3	100.94	262.32	273.29	38.48	36.94
1992	81.17	14.4	3.27	98.84	286.83	298.35	34.46	33.13
1993	75.9	15.2	3.26	94.36	278.5	291.08	33.88	32.42
1994	73.14	15.1	3.32	91.56	268.55	281.64	34.09	32.51
1995	70.81	15.4	3.57	89.78	259.37	272.06	34.61	33.00
1996	66.67	15.4	3.83	85.9	253.13	265.75	33.94	32.32
1997	69.72	15.5	4	89.22	258.25	270.5	34.55	32.98
1998	68.98	15.6	3.87	88.45	255.79	268.19	34.58	32.98
1999	69.5	16.2	3.69	89.39	264.2	274.77	33.83	32.53
2000	75.95	17.8	3.41	97.16	281.03	294.36	34.57	33.01
2001	73.98	18.4	3.52	95.9	290.19	304.73	33.05	31.47
2002	86.8	22.8	3.74	113.34	331.85	348.46	34.15	32.53
2003	106.74	29.4	3.78	139.92	387.14	404.73	36.14	34.57
2004	113.58	32.1	3.91	149.59	436.44	455.81	34.28	32.82
2005	127.46	36.1	3.72	167.28	474.07	495.29	35.29	33.77
2006	127.54	38.0	3.72	169.26	499.3	521.82	33.90	32.44
2007	127.54	42.7	3.47	173.71	528.55	551.26	32.87	31.51
2008	138.94	43.4	3.59	185.93	594.63	616.07	31.27	30.18
2009	147.35	46.6	2.72	196.67	636.74	661.01	30.89	29.75
2010	155.69	49.8	3.17	208.66	666.7	693.49	31.30	30.09
2011	161.61	52.6	3.43	217.64	678.06	705.55	32.10	30.85
2012	152.26	53.3	2.33	207.89	650.85	677.85	31.94	30.67
2013	150.83	46.9	1.83	199.56	607.8	633.39	32.83	31.51

Total
Budget
includes
Automatic
Energy
Defense
and
Defense
Related
Activities

The increase is only 43 percent using FY-2003 as the starting point - following the first full year of war expenses.

Measured as a percent of the overall budget personnel compensation remains constant at about 1/3 of the DoD budget (Table 1). Ironically, compensation was at the highest percentage in FY 1991 at about the time of Desert Storm. Recently, the highest percentage was in the FY 2003 and 2005 budgets. With expenses peaking in FY-2011, the personnel budget dollars has been declining since.

Slowing the growth has already begun. Reform to compensation as a means to reduce budget costs need to be taken cautiously.

RELABELING IS NOT REFORM

The suggested cost-savings of consolidating the health programs of the various armed services was averted by taking elements of DoD's Health Affairs and relabeling it the Defense Health Agency. The Pentagon is now trying to repackage the TRICARE program in order to raise beneficiary fees by labeling it a "consolidation." (It has been suggested this is actually a step back to CHAMPUS.)

Acquisition reform has also been in the spotlight, so DoD has announced the "Better Buying Power" as the best practice to "improve industry productivity, and provide an affordable, value-added military capability to the warfighter." Better buying or purchasing power is also the current buzz in the private sector.

"Slowing the Growth" is another relabel for transferring costs onto serving members, retirees and their families, and not expanding reforms into other functions of the Department of Defense.

Each program may introduce efficiencies, but don't necessarily bring the cost reduction so badly needed within defense budgeting.

One area where the Department of Defense has taking proactive cost savings is in the pursuit of electronic medical records that can be shared between DoD and the Department of Veterans Affairs. Originally, the plan was for the two departments to develop interface software internally. With the advancement of medical administrative software in the private sector over the last decade, the plan is now to allow the private sector to bid on development contracts. The estimate is that savings will be 62 percent.

COMPENSATION REDUCTIONS IN THE FY-2015 BUDGET

The White House's FY 2015 budget submission proposes several compensation reductions and benefit cuts:

R RESERVE STRENGTH.
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- Merging three different TRICARE plans in order to raise fees.
- Creating TRICARE Standard annual participation fees.
- Instituting TRICARE for Life (TFL) enrollment fees.
- Increasing pharmacy co-pays.
- Capping pay below the Employment Cost Index (ECI).
- Reducing Basic Allowance for Housing (BAH) increases by 5%.
- Reducing commissary subsidies, increasing patron costs.

TRICARE – Health coverage: Reserve Component members have a different perspective on the issue of TRICARE fees as they have relied on private health insurance for most of their careers. Guard and Reserve retirees only qualify for TRICARE from age 60 until age 65, and participate in TRICARE for Life once on Medicare.

Since 2006, ROA has been open to discussions about paying for military health care, but have been disappointed that DoD continues to make recommendations unilaterally. This has resulted in DoD over-budgeting its TRICARE funding needs to Congress, and under budgeting dollars for TRICARE in their submitted budget in an attempt to force fee increases. Recent reprogramming requests by DoD have only underlined an inadequacy in health care budgeting. With lessening overseas contingency operations, health care costs have been reduced with 2013 budgets returning to 2009 levels.

The current plan by the Pentagon to consolidate the three TRICARE programs is viewed by ROA as simply slapping a new label onto the same bottle of wine. Included in this repackaging is re-identification, so that “enrollment” fees become “participation” fees as an attempt to work around earlier Congressional prohibitions on including such fees onto TRICARE Standard and TRICARE for life.

Sustaining Military Health Care - ROA applauds the efforts by Congress to address the issue of increasing Department of Defense (DoD) health care costs by analyzing available options. Rather than just accepting DoD recommendations carte blanche, it is in the interest of beneficiaries for Congress to initiate dialogue and work with both the Pentagon and the beneficiary associations to continue to find the best solutions.

ROA is committed to its membership to sustain this health care benefit. We need to work together to find a fair and equitable solution that protects our beneficiaries and ensures the financial viability of the military health care system for the future.

ROA supports the current legislation that bases pharmacy fee increases based on the annual Cost of Living Allowances (COLA).

Suggested alternative health care savings:

- **Extend requiring home care delivery to retirees below age 65.**
- **Modestly increasing co-payments for routine office visits based on COLA,**
 - **Include co-payments for lab tests (now excluded).**

TRICARE Reserve Select has evolved into a standalone health plan program. While it uses the TRICARE standard as an engine, it is no longer a TRICARE standard program. DoD continues to address it as a health insurance plan, but it needs to be considered as a military health program.

Proposed changes to TRICARE Standard risk both TRICARE Reserve Select (TRS) and TRICARE Retired Reserve (TRR). DoD told beneficiary associations when TRS and TRR were first implemented that they were separate health care plans. Following this year's recommendations of fee increases, DoD wants fees to be increased for all TRICARE Standard plans.

TRS was instituted to help with military readiness of the Reserve and National Guard. TRR beneficiary currently bears the full cost of TRICARE, and should be charged extra.

Costs for Serving Members: Serving members of both the Active and Reserve Components are affected by the proposed cap on pay raises. This makes proposed reductions in the Basic Allowance of Housing and increased fees for Military Health Care even more burdensome.

Additional requested burdens:

- TRICARE Prime Remote requiring a co-payment
- Retail Pharmacy fee increases that rise faster than the pay cap rate.
- Cola minus 1 percent for new affiliates.

Congress worked hard to attain military pay comparability to the private sector. The trend of proposed pay caps below the Employment Cost Index (ECI) by the administration will cause military pay to become less competitive once again, placing personnel retention at risk.

It should be noted that when any group faces reductions in work force, the poor performers may be the first to be let go, but the smart performers realize that seeking other employment becomes a higher priority - before the jobs are filled by the less skilled performers.

Commissary: While it is acknowledged that the Reserve Force uses the commissary less frequently than those within the Active duty culture, Reserve and Guard members are not indifferent. Access to the commissary is symbolic, as it was a parity issue only recently corrected. Many within the Reserve and Guard committee object to the removal of subsidies to the commissary because of the effect on junior serving members and families.

SUGGESTED CHANGES TO RESERVE AND GUARD COMPENSATION

The Reserve forces are no longer just a part-time strategic force but are an integral contributor to our nation's operational capability.

What is frequently overlooked in an Active Component-centric view of our military, the Reserve Force at 1.1 million members makes up almost half the 2.3 million serving in uniform. In the last 13 years, nearly 896,000 have been mobilized, with more than 334,000 doing multiple tours. Almost 39,000 Reserve Force members are still deployed on active duty.

Proposed cuts will not only impact the Active duty component, but risk to weaken the Reserve force as well.

One of the source documents that DoD included in its White Paper was a recommendation that the 11th Quadrennial Review of Military Compensation (QRMC) issued last year. The QRMC began with the premise is that it is unfair to pay the Reserve force more than "one day's pay for one day's work on a drill weekend." This is an incomplete picture of what labor is actually contributed during inactive duty for training by the Reserve Force.

Reservist and Guard members are not paid for vacation or holidays. They also work between inactive training drills to maintain personal proficiency or prepare for meaningful drill training - all unreimbursed. Moreover, a drilling Reservist's personal expense to travel to monthly training may actually exceed current drill pay.

In ROA's white paper, Drill Pay Under Fire, ROA calculated a pay-to-work ratio. The Active Force gets paid for 360 days while working about 224 when you subtract weekends, personal leave and federal holidays. Dividing 360 by 224 you get a ratio of 1.6 days paid to 1 day worked for the active duty. The Reserve Force is paid for 63 days, 48 drills and 15 days annual training. They work 39, 24 drill days and 15 days AT. This results in a ratio of 1.6 days worked for one days' pay. Don't change the current system of pay.

As highlighted in ROA's white paper, the QRMC recommendations for changes to Reserve retirement actually reduces the benefit by 30 percent. While it recommends paying a retired Reservist earlier than age 60, the actual benefits paid under the proposed system cross over with the current system at age 74, leaving the retiree at a reduced rate for the remaining 11 years of his actuarial life - a time when the retiree most needs it.

Cutting compensation to the Reserve Force will undercut the Total Force. The Reserve and Guard is the truest all-volunteer force as most Reservists can vote with the feet should compensation be changed. Hollowing the Reserve Force is a real risk; as feed back to both the ROA and REA indicates that cuts to pay or retirement will cause serving members to quit.

Reserve Pay and Compensation:

- Reject recommendations by The 11th Quadrennial Review of Military Compensation to reduce Reserve Component pay for monthly inactive duty training in half.
- Reimburse a Reserve Component member for expenses incurred in connection with round-trip travel in excess of 50 miles to an inactive training location, including mileage traveled, lodging and subsistence.
- Simplify the Reserve duty order system without compromising drill compensation.
- Eliminate the parity difference caused by the 1/30th rule for Aviation Career Incentive Pay, Career Enlisted Flyers Incentive Pay, and Diving Special Duty Pay.

COST EFFICIENCIES OF THE RESERVE FORCE

Rather than be limited to historical thinking, and parochial protections, creative force structure approaches should be explored. The Reserve Component needs to continue in an operational capacity because of cost efficiency and added value. Civilian skill sets add to the value of the individual RC serving member.

The Reserve Force is a bargain for the tax payer when viewed over the comparative life cycle cost of the equivalent member of the Active Component. At least three studies have shown that in many missions the Reserve Force warrior is as capable as his or her Active Duty counterpart at about 31 percent of the cost when measuring the complete life cycle of military duty from initial training through multi-year service and then retirement. In the CSIS study, it showed that the budget for the Reserve Component remained constant at about 12 percent between FYs 2000 and 2011.

A common sense balance between Active and Reserve components is needed; as the American people are unwilling to pay for an Active Army large enough to meet all of Nations defense responsibilities by itself. If we don't take care of the Guard and Reserve, we'll have no "safety net" for the next fight.

If DoD better utilized the Reserve Component savings could be generated that would protect both compensation, and modernization. At a time when the Pentagon and Congress are examining our nation's security, it would be incorrect to discount the Reserve Components' abilities and cost efficiencies. Instead, these part-time warriors provide a cost savings solution and an area to retain competencies for missions not directly embodied in the administration's strategic guidance policy.

ROA and REA support changes to US Code to require DoD to use a costing methodology based on a true fully-burdened and life-cycle costing."

OTHER SUGGESTIONS

Changing career patterns can also be an area for savings. The tradition career path has been “up or out,” allowing for rapid promotion. A serving member must achieve a certain rank within a certain period of time. If they fail to do so, they must leave the organization. While theoretically skill based, often promotion is politically based.

The 1980 Defense Officer Personnel Management Act mandates that officers passed over twice for promotion are required to be discharged from the military. Similar policies exist to limit high year tenure for enlisted. ROPMA provides guidelines for Reserve and Guard officers.

Congress can amend restrictive aspects of current statutes that mandate “up-or-out” career management policies to enable the Armed Forces to retain serving members actively working in career fields where substantial investment in training and career development has been made and where it serves the needs of the military.

Suggested Changes to retention policies:

- **Permit service beyond current mandatory retirement limitations.**
- **Retain serving members for skill sets, even when passed over for promotion.**
- **Slow the promotion rates, but extend the pay charts.**
- **Evaluate senior leadership positions, and shift responsibilities and authority down the chain of command.**
- **Support incentives for affiliation, reenlistment, retention and continuation in the Reserve Component from Active Duty.**
- **Modify US Code that requires repayment of separation bonuses if an individual receives a separation bonus and then joins the Reserve or National Guard.**

CONCLUSION

Many serving and retirees recognize the need for sacrifice, but don’t want to carry the burden just by themselves. Exploring all options before cutting compensation and benefits need to exhausted.

ROA and REA restate our profound gratitude for the bipartisan success achieved by this committee by improving parity on pay, compensation and benefits between the Active and Reserve Components. The challenges being faced with proposed budget cuts and sequestration are going to make this committee’s job that much more challenging.

ROA and REA look forward to working with the committee where we can present solutions to these challenges and other issues, and offers our support in anyway.

[Questions for the record with answers supplied follow:]

QUESTIONS SUBMITTED BY SENATOR RICHARD BLUMENTHAL

ROSOBORONEXPORT

1. Senator BLUMENTHAL. General Dempsey, I understand that 16 Mi-17 helicopters have yet to be delivered by Rosoboronexport to the Government of Afghanistan to fulfill the remainder of the current contract. If the contract were to be terminated before these helicopters are delivered, what is the termination cost?

General DEMPSEY. Eighteen Mi-17 helicopters have yet to be delivered. Financial liability for termination of the contract by either party to the contract would be subject to negotiation.

2. Senator BLUMENTHAL. General Dempsey, what is the cost of the current contract?

General DEMPSEY. \$552 million for 30 Mi-17s modified to a military configuration with U.S. and the North Atlantic Treaty Organization (NATO) standard cockpits, mission equipment and weapons; an initial spares package; and a 1-year warranty.

3. Senator BLUMENTHAL. General Dempsey, how much money has yet to be paid to Rosoboronexport for the 16 remaining helicopters?

General DEMPSEY. \$171.3 million has yet to be paid. Advanced payments are made as manufacturing progresses with additional payment upon Mi-17 delivery.

4. Senator BLUMENTHAL. General Dempsey, I understand that \$120.0 million is spent each year on the repairs and maintenance for the Mi-17 helicopters owned by the Afghanistan security forces. How much of that \$120.0 million is paid to Rosoboronexport?

General DEMPSEY. The contract with Rosoboronexport is for procurement of aircraft, which does include an initial supply of spares and a 1-year warranty. The \$120 million for repairs and maintenance are handled through contracts with U.S. contractors, specifically Northrop Grumman and Lockheed Martin.

5. Senator BLUMENTHAL. General Dempsey, of the \$120.0 million identified for repairs and maintenance this year, how much has been paid to date?

General DEMPSEY. Approximately \$70 million has been paid to Northrop Grumman and Lockheed Martin for repair and maintenance activities in Afghanistan this year.

6. Senator BLUMENTHAL. General Dempsey, in addition to the Mi-17 and the RD-180, please identify all other contractual agreements—research and development (R&D), procurement, defense cooperation—between the Department of Defense (DOD) and any Russian manufacturer, government agency, or other Russian entity.

General DEMPSEY. In addition to Mi-17 and RD-180, the United States is engaged with Russia concerning contracts in several areas, from small R&D research grants, water pollution engineering, supply procurements, to logistics support items (excluding fuel and construction), trucks, guns, laboratory equipment and supplies. One example includes the U.S. Prisoner of War/Missing in Action office's agreement with the Russian Government regarding archival research in the Russian State Military Archives. Finally, United Launch Alliance, in addition to using the RD-180 engine, purchases Antonov aircraft flights from a private transport company based in the United Kingdom.

PRESCRIPTION OPIATE USE WITHIN THE MILITARY

7. Senator BLUMENTHAL. General Odierno, General Welsh, Admiral Greenert, and General Amos, testimony presented by Brigadier General Norvell V. Coots, USA, at an April 30 hearing of the Senate Committee on Veterans Affairs indicated that in 2011 over 26 percent of the Active Duty military force used some form of opiate medication. In 2013, over 24 percent of the Active-Duty Force had used opiate medication. I would like to gain clarity on these numbers. Over each of the past 10 years, what percentage of your respective Service has been prescribed an opiate medication at least once as covered by the previous list?

General ODIERNO. The proportion of Active Duty Army servicemembers prescribed an opiate medication at least once in a year for the last 10 years is as follows:

2004 - 21 percent

2005 - 22 percent
 2006 - 25 percent
 2007 - 26 percent
 2008 - 26 percent
 2009 - 26 percent
 2010 - 27 percent
 2011 - 29 percent
 2012 - 29 percent
 2013 - 27 percent

General WELSH. The percentage of Active Duty Air Force servicemembers prescribed an opiate medication at least once in a year for the past 10 years is as follows:

2004 - 22 percent
 2005 - 22 percent
 2006 - 23 percent
 2007 - 24 percent
 2008 - 24 percent
 2009 - 23 percent
 2010 - 24 percent
 2011 - 24 percent
 2012 - 24 percent
 2013 - 23 percent

Admiral GREENERT. The testimony provided by BG Coots was based on data compiled by the Army Pharmacovigilance Center (PVC) on the proportion of Active Duty members with at least one prescription for an opiate agonist or partial agonist. The proportion of Active Duty Navy servicemembers prescribed an opiate medication at least once in a year is:

2004 - 27 percent *
 2005 - 26 percent
 2007 - 25 percent
 2008 - 25 percent
 2009 - 26 percent
 2010 - 26 percent
 2011 - 26 percent
 2012 - 25 percent
 2013 - 22 percent

General AMOS. The testimony provided by BG Coots was based on data compiled by the Army PVC on the proportion of Active Duty members with at least one prescription for an opiate agonist or partial agonist. The PVC has compiled 5 years of data for all Services from 2009 to 2013, and is conducting data analysis to provide a response to opioid medication use over the last 10 years.

The proportion of Active Duty Marine Corps servicemembers prescribed an opiate medication at least once in a year is as follows:

2009 - 26 percent
 2010 - 26 percent
 2011 - 26 percent
 2012 - 26 percent
 2013 - 25 percent

8. Senator BLUMENTHAL. General Odierno, General Welsh, Admiral Greenert, and General Amos, over each of the past 10 years, what percentage of your respective Service has been prescribed an opiate medication for a chronic condition—whether physical pain or mental health—as covered by the previous list?

General ODIERNO. Less than 1 percent of our forces are initiating chronic opiate treatment at any given year in the past 5 years. All soldiers receive a medication evaluation to determine deployment eligibility. This evaluation includes a review of prescribed medications. Soldiers who are prescribed chronic opiates require U.S. Central Command (CENTCOM) surgeon waiver to deploy. Since the release in December 2013 of Modification 12 to the CENTCOM Individual Protection and Individual Unit Deployment Policy, deployment waivers for chronic opiate use have rarely been approved. Those few exceptions tend to be cases of short deployments located at or near Medical Treatment Facilities and the low-risk condition of the soldier.

*It is possible 2004 data may overestimate prevalence in active duty due to error in source data that misclassified beneficiaries as sponsors (i.e. AD).

General WELSH. At the present time data analysis for opioid medication use over the last 10 years is being conducted. We currently have the last 5 years of data.

Chronic opioid use is defined as cumulative use of 90 or greater days of use in a 6 month period for new users. This definition is in agreement with the Veterans Health Administration. The percentage of Active Duty Air Force servicemembers prescribed an opiate medication for chronic use in a year is as follows.

2009 - 0.5 percent
 2010 - 0.5 percent
 2011 - 0.5 percent
 2012 - 0.5 percent
 2013 - 0.4 percent

Admiral GREENERT. The Army PVC conducted data analysis to provide a response to chronic opiate medication use over the last 10 years for all Services.

The Army PVC defines chronic opioid use as, "cumulative use of 90 or greater days of use in a 6 month period". Previously, the Army PVC defined chronic opioid use as, "cumulative use of 90 or greater days of use in a 6 month period for new users," which resulted in a lower percentage of active duty being considered chronic opioid users. The proportion of Active Duty Navy servicemembers with any chronic opiate use in a year is as follows:

2004 - 1.12 percent
 2005 - 1.14 percent
 2006 - 1.24 percent
 2007 - 1.22 percent
 2008 - 0.91 percent
 2009 - 0.81 percent
 2010 - 0.85 percent
 2011 - 0.90 percent
 2012 - 0.90 percent
 2013 - 0.79 percent

General AMOS. At the present time the Army PVC is conducting data analysis to provide a response to opiate medication use over the last 10 years for all Services. We currently have 5 years of data.

The Army PVC defines Chronic opioid use as, "cumulative use of 90 or greater days of use in a 6 month period for new users". This definition is in agreement with the Veterans Health Administration. The proportion of Active Duty Marine Corps servicemembers prescribed an opiate medication for chronic use in a year is as follows.

2008 - 0.42 percent
 2009 - 0.42 percent
 2010 - 0.45 percent
 2011 - 0.51 percent
 2012 - 0.38 percent

From 2008 to 2012, the average percentage of U.S. Marine Corps Active Duty Servicemembers prescribed an opiate medication associated with a chronic condition was 0.44 percent.

9. Senator BLUMENTHAL. General Odierno, General Welsh, Admiral Greenert, and General Amos, what procedural measures have been implemented within your respective Service to mitigate risk with regard to prescription of opiate medication?

General ODIERNO. Army Medicine uses best practices that are comparable to, or exceed, civilian programs, such as prescription drug monitoring to identify polypharmacy cases. Positive interventions include comprehensive medication reviews, sole provider programs, limiting the dispensed supply of medication, restricting high-risk patients to the utilization of one pharmacy, informed consent, use of non-drug treatment options, clinical pharmacist referrals, and patient and provider education.

General WELSH. Current Air Force practices and programs designed to mitigate risk with regard to prescription of opiate medication include: development of comprehensive pain management policy, urinalysis testing, screening controlled substance prescriptions, Air Force Alcohol and Drug Abuse Prevention and Treatment and Drug Demand Reduction programs. Other provider specific programs include: "Do No Harm" training for all prescribing providers, "Sole Provider" prescription restriction program, medication reconciliation, and the use of pain contracts for chronic pain patients.

With the startup of the Defense Health Agency (DHA) and under the new governance structure of the Military Health System (MHS), a tri-Service/DHA working

group has been established to develop a standardized comprehensive pain management policy across the Services which includes a multi-disciplinary approach using non-traditional and holistic methods to control pain without or in conjunction with prescription medications. This group will develop policy for safe prescribing practices of opioids with tri-Service consensus to include guidelines for urine drug testing, requirements for opioid care agreements and consents, screening guidelines, specialty referral, and improved provider education on opioid therapy. In addition, the working group will align its efforts with the Defense and Veterans Center for Integrative Pain Management which develops consensus recommendations for the Air Force, Army, Navy, MHS, and Veterans Health Administration integrated pain management communities for improvements in pain medicine policies, practice, education, and research.

Military treatment facility (MTF) pharmacies screen controlled substance prescriptions, review patient medication profiles, and use the Pharmacy Data Transaction Service (PDTS) to help identify potentially dangerous polypharmacy. PDTS monitors medication profiles from MTF, mail-order and retail pharmacy points of service.

Admiral GREENERT. The Navy in collaboration with DOD has undertaken several actions to mitigate the risks of related to prescribing pharmaceuticals. Specifically:

- The DOD Pharmacy Operations Division utilizes the PDTS, an online centralized prescription data repository, to automatically check new prescriptions against a patient's computerized medication history from all points of service (Retail, Mail, MTF, and Theater) for possible adverse events or therapeutic duplications before the new drug is dispensed.
- The MTF Prescription Restriction Program allows a provider or a nurse/pharmacist, on behalf of a provider/multi-disciplinary team to restrict a patient's access to controlled substances, or to exclude controlled substances or specific non-controlled substance(s) at mail order or a retail pharmacy
- The TRICARE Pharmacy 1-1-1 Program allows a prescriber to limit at-risk patients' access to controlled substances to one prescriber, and at only one pharmacy.
- The Patient Centered Medical Home provides a comprehensive, integrated approach to primary care, to include treatment for acute and chronic pain. Incorporating a pain management program that collaborates with DOD and VA as well as provider specific training on pain management, the Navy looks at a holistic approach to patients needs including non-pharmacological therapies. In addition we have seven pain management centers throughout the enterprise providing therapeutic and invasive pain management care to Navy Medicine beneficiaries.
- Lastly, the Navy Alcohol and Drug Abuse Prevention Office, part of the Navy's 21st Century Sailor Office, has also developed the "Prescription for Discharge" campaign to educate sailors, marines, and their family members on the safe and proper use of prescription drugs. The campaign includes, tips for all Navy personnel on the safe and proper use of prescription drugs. Materials are available for distribution and display at Navy medical clinics, pharmacies, waiting rooms, barracks, and other locations; and resources are provided for Navy leadership, medical personnel, and drug abuse prevention personnel to present at safety stand downs, briefings, or community health fairs.

General AMOS. The Marine Corps in collaboration with Navy Medicine and DOD has undertaken several actions to mitigate the risks related to prescribing opiate pharmaceuticals. Specifically:

- Interactions and duplication warnings are communicated to the provider in real time during prescription entry via the Composite Health Care System.
- Provider and patient education related to VA/DOD guidelines for providers prescribing opioids, Complementary and Alternative Medicine training and access which provide non-pharmacologic therapeutic options for pain management.
- Medication verification and documentation in the medical record at every patient encounter.
- Force Preservation Councils (FPC) provide a clear formalized process for units to identify at-risk marines and focus appropriate attention and resources to assist the individual. Use of opiate medications is a required reporting condition for the FPC.

- Marine Centered Medical Home (MCMH) provides a comprehensive, integrated approach to primary care, to include treatment for acute and chronic pain. The MCMH facilitates education of both the patient and his/her family on the etiology and management of acute and chronic pain, which may reduce the likelihood of disability, address the under-treatment of pain, and provide for individual tailoring of treatment plans.
- The Marine Corps also capitalizes on a number of Bureau of Navy Medicine prescription restriction and opioid management programs and processes including the Navy Comprehensive Pain Management Program.

10. Senator BLUMENTHAL. General Odierno, General Welsh, Admiral Greenert, and General Amos, what is your assessment of force readiness with regard to prescription opiate use?

General ODIERNO. At the present time, the Army Pharmacovigilance Center is conducting data analysis to provide a response to opiate medication use over the last 10 years. We currently have the last 5 years of data, beginning with 2012.

Chronic opioid use is defined as cumulative use of 90 or greater days of use in a 6-month period. The proportion of Active Duty Army servicemembers initiating on an opiate medication for chronic use in a year is as follows:

2008 - 1 percent
 2009 - 0.9 percent
 2010 - 1 percent
 2011 - 1 percent
 2012 - 0.8 percent

General WELSH. Force readiness is always our number one priority. Our ability to fulfill the readiness mission is not hindered by prescription opiate use. All personnel are medically screened prior to deployment, including any medication therapy they may be on. If servicemembers become ill or injured while deployed, their condition and treatment regimen, including medication therapy, are evaluated for any impact on their ability to perform the mission.

We will continue to use and improve current programs and processes to appropriately treat patients and prevent and mitigate the impact of drug use or abuse on the readiness of the force. These programs include: development of comprehensive pain management policy through tri-Service working groups, urinalysis testing, screening controlled substance prescriptions, Air Force Alcohol and Drug Abuse Prevention and Treatment and Drug Demand Reduction programs. Other provider specific programs include: "Do No Harm" training for all prescribing providers, "Sole Provider" prescription restriction program, medication reconciliation, and the use of pain contracts for chronic pain patients.

Admiral GREENERT. Prescription opioid use has been stable over the last 6 years in Navy. There are serious risks with opioid use to include the risk of misuse, abuse and diversion. Opiate use requires judicious management, education and monitoring to ensure appropriate and safe utilization. Our Active Duty servicemembers suffering with chronic pain are provided with interdisciplinary and collaborative pain management services. Furthermore, by consistently fulfilling all aspects of the Opioid Therapy Clinical Practice Guidelines, we are continuously assured that we are safely prescribing opioids for our Active Duty servicemembers who require pain care management and opiate prescriptions.

Illegal use of prescription drugs, including opiates, undermines combat readiness and is incompatible with our standards of performance and military discipline. Accordingly, this past month we launched a new "Prescription for Discharge" campaign, designed to educate sailors and their families on the safe use of prescription drugs and on the health and career risks associated with misuse. Abuse of prescription drugs is a violation of the Uniform Code of Military Justice.

General AMOS. Force Readiness is our mission. There are serious risks with opioid use to include the risk of misuse, abuse and diversion. Opiate use requires judicious management, education and monitoring to ensure appropriate and safe utilization. Our Active Duty servicemembers suffering with acute and chronic pain require interdisciplinary and collaborative pain management services. We are strengthening the patient-provider relationship in our Marine Centered Medical Homes to increase the effectiveness of pain management practices and standardizing the care delivered using Clinical Practice Guidelines. As we fulfill all aspects of the Opioid Therapy Clinical Practice Guidelines that include opioid care agreements, urine drug screening, assessment of contraindications, safe prescribing practices, facilitation of self-care, patient education and more, we can safely prescribe opioids for our Active Duty servicemembers who require pain care management and opiate prescriptions.

Prescription opioid use has been stable over the last 6 years in the Marine Corps. The data does not support a concern for force readiness.

QUESTIONS SUBMITTED BY SENATOR JOE DONNELLY

COMPENSATION

11. Senator DONNELLY. Admiral Greenert, in your answer to one of Senator Ayotte's questions, you mentioned that an E-5 (6 years of service) with three dependents currently makes \$64,300 and will make \$76,000 in 2019, which would amount to a 4 percent loss in buying power. Please provide the breakdown of the pay of an E-5 and how the pay amounts were determined, to include where the basic allowance for housing (BAH) rate was determined, if this was factored into the pay.

Admiral GREENERT. After my testimony, we discovered that the compensation amounts I presented for the notional E-5 with three dependents were calculated incorrectly; they used a commissary discount value for a sailor with only one dependent, which understated the calculated purchasing power. The correct amount should have been \$66,071 for an E-5 today, \$78,313 in 2019 (with no compensation reform), and \$69,804 (with compensation reform). When corrected for inflation, \$69,804 represents a 5.5 percent loss in purchasing power. Our methodology and analysis follows:

Calculated purchasing power is composed of basic pay, basic allowance for subsistence (BAS), BAH, and the commissary discount, less TRICARE cost sharing. The notional E-5 has 6 years of service, three dependents, and is stationed in San Diego. Calculated purchasing power does not include any special and incentive pays that many sailors receive, such as Career Sea Pay or Family Separation allowance (for deployed sailors).

The nominal 2014 values of the purchasing power components are as follows:

	In Testimony	Corrected
•	Basic Pay:	\$32,814 \$32,814
•	BAH:	\$24,624 \$24,624
•	BAS:	\$4,291 \$4,291
•	Commissary Discount Used:	\$2,800 N/A
•	Commissary Discount Correct:	N/A \$4,500
•	TRICARE cost sharing:	-\$158 -\$158
•	Total:	\$64,371 \$66,071

The nominal 2019 values of the purchasing power components are as follows:

	In Testimony	Corrected
•	Basic Pay:	\$37,852 \$37,852
•	BAH:	\$30,248 \$30,248
•	BAS:	\$5,071 \$5,071
•	Commissary Discount Used:	\$3,309 N/A
•	Commissary Discount Correct:	N/A \$5,319

•	TRICARE cost sharing: -	\$176	-176
•	Total:	\$76,304	\$78,313

With the proposed compensation reforms, the nominal values of the components of that Sailor's purchasing power in 2019 would be:

	In Testimony	Corrected	
•	Basic Pay:	\$34,933	\$34,933
•	BAH:	\$28,433	\$28,433
•	BAS:	\$5,071	\$5,071
•	Commissary Discount Used:	\$1,067	N/A
•	Commissary Discount Correct:	N/A	\$1,773
•	TRICARE cost sharing: -	\$406	-406
•	Total:	\$69,098	\$69,804

FY-19 predictions were calculated for each component of compensation using the following inflation factors:

Pay component	Index	FY15	FY16	FY17	FY18	FY19
Basic Pay	ECI	1.9%	2.3%	3.0%	3.5%	3.8%
BAS	USDA index	3.4%	3.4%	3.4%	3.4%	3.4%
BAH	Rental surveys	4.3%	4.3%	4.3%	4.3%	4.3%
TRICARE	CPI	2.0%	2.1%	2.2%	2.4%	2.4%

• CPI and ECI projections from CBO's February

• 2014 economic projections.

• BAS and BAH from OSD programming guidance

The table above makes clear that, absent compensation reform, a sailor's purchasing power is expected to increase faster than the standard measure of consumer inflation, CPI. Because BAH is such a large component of sailor compensation, total purchasing power without reform is also expected to increase faster than civilian wages, as measured by Employment Cost Index (ECI).

However, the traditional method to compare the purchasing power of nominal cash flows at different points in time is to discount using the CPI rate. Using the Congressional Budget Office (CBO) discount rate detailed above, the total purchasing power in 2019 for the notional E-5 including proposed compensation reforms and expressed in 2014 dollars, is \$62,399, or, a 5.5 percent reduction in total purchasing power.

12. Senator DONNELLY. Admiral Greenert, how was the analysis of buying power determined? Please provide the detailed analysis.

Admiral GREENERT. See response to question 11.

RETIREMENT PAY FOR GENERAL OFFICERS

13. Senator DONNELLY. General Dempsey, in 2007, Congress passed a DOD-sponsored proposal that increased retirement benefits for three- and four-star generals and admirals, allowing them to draw retirement pay based off the basic pay chart and not restrained by Level II of the Executive Schedule (\$15,125.10 in the 2014 pay chart). According to a USA Today article (January 9, 2014), this would mean that a four-star general retiring with 40 years of service would receive a pension of \$237,150, when the base pay is only \$181,501. Additionally, because time in the military academies counts towards the pension, a retired general could receive a higher pension. As you have considered changes to the military retirement system, have the Joint Chiefs given consideration to this issue?

General DEMPSEY. While serving, general and flag officer basic pay is limited by Level II of the Executive Schedule. Once a general or flag officer retires, that limitation is removed. Retirement pay is based on the appropriate percentage of their actual basic pay. In some rare cases, this results in retirement pay that is greater than their capped pay while on active duty.

Time at military academies does not count towards pension except in rare cases, such as prior service. Date of entry at military academies does determine (in most cases) the retirement system that applies to a military member. For graduates of a Military Academy with no prior service, the date they entered the Academy is called the DIEMS (Date of Initial Entry to Military Service). Academy graduates who entered the Academy prior to, but graduated after, September 8, 1980, are under the final pay system. For those that entered after that date, the high 36-month system applies.

We do not object to review or recommendations regarding retired pay for general and flag officers. However, because of the complexity of the military retirement system, any proposal for change should be part of a holistic, system-wide review under the congressionally established Military Compensation and Retirement Modernization Commission (MCRMC).

14. Senator DONNELLY. General Dempsey, if a general officer or a flag officer has over 40 years of service, does the retirement multiplier increase to calculate over 100 percent of base pay?

General DEMPSEY. Under the Final Pay and High 36-month retirement systems, the retirement multiplier is calculated by multiplying 2.5 percent and the number of years of the member's active service. At 40 years, the retirement multiplier is 100 percent. For the few officers who retire with over 40 years of service, the retirement multiplier is over 100 percent.

15. Senator DONNELLY. General Dempsey, what would be the implication on the retentions of three- and four-star flag officers if the 2007 provision was eliminated?

General DEMPSEY. We do not object to review or recommendations regarding retired pay for general and flag officers. However, because of the complexity of the military retirement system, any proposal for change should be part of a holistic, system-wide review under the congressionally established MCRMC.

QUESTIONS SUBMITTED BY SENATOR KELLY AYOTTE

UKRAINE

16. Senator AYOTTE. General Dempsey, in your professional military judgment, is it in America's national security interests to deter a Russian invasion of eastern Ukraine and to do all we can to help Ukraine protect its territorial integrity and sovereignty?

General DEMPSEY. America's national security interests are aligned with an independent, sovereign and stable Ukraine, firmly committed to democracy and respect for human rights, minorities, and the rule of law. DOD will continue efforts to support this end state.

17. Senator AYOTTE. General Dempsey, in a conventional battle against each other, how do Ukrainian forces compare with Russian forces in terms of size and capabilities?

General DEMPSEY. [Deleted.]

18. Senator AYOTTE. General Dempsey, what lethal assistance would best help the Ukrainian military in the event of a conventional invasion of eastern Ukraine?

General DEMPSEY. The United States aim is to encourage a diplomatic resolution of this crisis. Our continued desire is that Russia will move its forces back to garrison and cease such destabilizing activities on Ukraine's border. Lethal assistance at this stage could be counterproductive and would have very limited utility in deterring Russia from further military actions.

19. Senator AYOTTE. General Dempsey, what lethal assistance has the Ukrainian Government requested from the United States?

General DEMPSEY. As of 12 June 2014, Ukraine has requested small-arms, ammunition, anti-tank and air defense systems, armored vehicles, combat support equipment, and logistical equipment from NATO and the United States.

20. Senator AYOTTE. General Dempsey, what, if any, lethal assistance has the United States provided to the Ukrainian military?

General DEMPSEY. As of 12 June 2014, to the best of my knowledge, we have not provided any lethal aid to Ukrainian forces.

We continue to assess the conditions under which we would provide lethal support to Ukraine. Limited lethal assistance at this stage would not deter Russia. Russia could use even limited U.S. military assistance as a pretext to conduct further destabilizing activities with respect to Ukraine.

21. Senator AYOTTE. General Dempsey, in your professional military judgment, would providing anti-tank and anti-aircraft weapons to the Ukrainian military decrease the likelihood that Putin would undertake a conventional military invasion of eastern Ukraine?

General DEMPSEY. President Putin's ultimate objectives for Ukraine are unknown. We are working through diplomatic and military channels to ease tensions and dissuade further Russian interventions.

22. Senator AYOTTE. General Dempsey, what military training is the United States providing the Ukrainian military?

General DEMPSEY. Over the years we have developed a routine training and exercise relationship. We are in contact with the Ukrainian Minister of Defense and the Armed Forces to assess future training requirements.

23. Senator AYOTTE. General Dempsey, can the United States provide more military training to the Ukrainian military?

General DEMPSEY. We are in the process of assessing Ukraine's training and capacity needs to best support its requests for military training.

24. Senator AYOTTE. General Dempsey, if the United States can provide more military training to the Ukrainian military, what specific training would you recommend?

General DEMPSEY. Ukraine's newly elected government will greatly influence its military training requirements. Their specific needs include defense in depth, intelligence-operations fusion, campaign planning, strategic leadership, operational level logistics, and interoperability with law enforcement agencies.

GENERAL OFFICER RETIREMENT PAY

25. Senator AYOTTE. General Dempsey, the 2007 National Defense Authorization Act made significant changes to the pay authorities of flag officers. The 2007 legislation provided incentives for senior officers to continue serving by extending the basic pay table from a cap at 26 years to providing an increase in longevity pay out to 40 years of service. According to a January 9, 2014, USA Today report, using 2011 numbers, the 2007 pay table changes could result in a four-star officer retiring with 38 years of experience receiving \$84,000 more per year in retirement than previously allowed (63 percent more). The 2007 changes not only increased longevity pay for senior officers but also allowed senior officers retiring with 40 years of service to receive 100 percent of their Active Duty pay. Unlike the cap on annual pay, there is currently no cap on retired pay for these senior officers. Was the purpose of this legislation to encourage combat experienced one- and two-star admirals and generals to continue to serve during a time of war?

General DEMPSEY. The legislation provided greater incentive and more appropriate compensation for individuals who the Services retained beyond 30 years of service. At the time of the change, with the exception of cost of living increases, most O-9s and O-10s were serving for over a decade without adjustments in salary or retired pay. The changes provided consistent recognition across an individual's entire career, not just the first 26 years. For certain highly-skilled officers and warrant officers, as well as general and flag officers, the impact of the changes has increased leadership experience and allowed the Services to retain highly-skilled senior leaders.

26. Senator AYOTTE. General Dempsey, do you believe this program is still necessary given the fact that we have withdrawn from Iraq and we are withdrawing most of our troops from Afghanistan?

General DEMPSEY. I believe we benefit from senior leaders who are more experienced. That said, moreover, although our conflicts in Iraq and Afghanistan are nearing a point of "normalization," the security challenges facing our Nation are significantly increasing. In my judgment we will need more not fewer experienced leaders to operate at the strategic level. I do not object to review or recommendations regarding retired pay for general and flag officers. Because of the complexity of the

military retirement systems, any proposal for change should be part of a holistic, system-wide review under the congressionally-established MCRMC.

27. Senator AYOTTE. General Dempsey, what is the justification, if any, for keeping this in place?

General DEMPSEY. I believe we benefit from senior leaders who are more experienced. The current legislation provides deferred compensation, in the form of retired pay, based upon rank and position. Prior to the 2007 legislative changes, O-9s, O-10s, the Joint Chiefs and combatant command commanders were compensated without recognition of varying experience or responsibility, while on active duty and upon retirement.

However, I do not object to review or recommendations regarding retired pay for general and flag officers. Because of the complexity of the military retirement system, any proposal for change should be part of a holistic, system-wide review under the congressionally-established MCRMC.

28. Senator AYOTTE. General Dempsey, is DOD recommending the repeal of this provision? Why or why not?

General DEMPSEY. We do not object to review or recommendations regarding retired pay for general and flag officers. However, because of the complexity of the military retirement system, any proposal for change should be part of a holistic, system-wide review under the congressionally-established MCRMC.

IMPACT ON JUNIOR ENLISTED SERVICEMEMBERS

29. Senator AYOTTE. Admiral Greenert, the Military Officers Association of America (MOAA) estimates that the family of an E-5 would experience a loss of nearly \$5,000 in purchasing power annually if the current military compensation proposals are enacted. In the hearing, when I brought this to your attention, you stated that, "they [E-5] get about a 4 percent loss in buying power as a result of this. That's about \$2,500, not \$5,000." Please explain the difference between the figure MOAA calculated and the figure DOD calculated.

Admiral GREENERT. We used the below methodology to analyze a notional sailor's buying power as a result of our proposed compensation reforms. That sailor's total loss is approximately \$3,700, or 5.5 percent.

The 5.5 percent calculation reflects one amendment since the hearing. After my testimony, we discovered that the compensation amounts I presented for the notional E-5 with three dependents were calculated incorrectly. We used a commissary discount value (one factor among several used in our calculation) for a sailor with only one dependent, which understated the calculated purchasing power. The correct amount should have been \$66,071 for an E-5 today, \$78,313 in 2019 (with no compensation reform), and \$69,804 (with compensation reform). When corrected for inflation, \$69,804 represents a 5.5 percent loss in purchasing power (approximately \$3,700).

Calculated purchasing power is composed of basic pay, BAS, BAH, and the commissary discount, less TRICARE cost sharing. The notional E-5 has 6 years of service, three dependents, and is stationed in San Diego. Calculated purchasing power does not include any special and incentive pays that many sailors receive, such as Career Sea Pay or Family Separation allowance (for deployed sailors).

The nominal 2014 values of the purchasing power components are as follows:

	In Testimony	Corrected
•	Basic Pay:\$32,814	\$32,814
•	BAH: \$24,624	\$24,624
•	BAS: \$4,291	\$4,291
•	Commissary Discount Used:	\$2,800 N/A
•	Commissary Discount Correct:	N/A \$4,500
•	<u>TRICARE cost sharing:</u>	<u>-\$158 -\$158</u>
•	Total: \$64,371	\$66,071

The nominal 2019 values of the purchasing power components are as follows:

	In Testimony	Corrected
•	Basic Pay:\$37,852	\$37,852
•	BAH: \$30,248	\$30,248
•	BAS: \$5,071	\$5,071
•	Commissary Discount Used:	\$3,309 N/A
•	Commissary Discount Correct:	N/A \$5,319
•	<u>TRICARE cost sharing:</u>	<u>-\$176 -176</u>
•	Total: \$76,304	\$78,313

With the proposed compensation reforms, the nominal values of the components of that Sailor's purchasing power in 2019 would be:

	In Testimony	Corrected
•	Basic Pay:\$34,933	\$34,933
•	BAH: \$28,433	\$28,433
•	BAS: \$5,071	\$5,071
•	Commissary Discount Used:	\$1,067 N/A
•	Commissary Discount Correct:	N/A \$1,773
•	<u>TRICARE cost sharing:</u>	<u>-\$406 -406</u>
•	Total: \$69,098	\$69,804

FY-19 predictions were calculated for each component of compensation using the following inflation factors:

Pay component	Index	FY15	FY16	FY17	FY18	FY19
Basic Pay	ECI	1.9%	2.3%	3.0%	3.5%	3.8%
BAS	USDA index	3.4%	3.4%	3.4%	3.4%	3.4%
BAH	Rental surveys	4.3%	4.3%	4.3%	4.3%	4.3%
TRICARE	CPI	2.0%	2.1%	2.2%	2.4%	2.4%

- CPI and ECI projections from CBO's February 2014 economic projections.
- BAS and BAH from OSD programming guidance

The table above makes clear that, absent compensation reform, a sailor's purchasing power is expected to increase faster than the standard measure of consumer inflation, consumer price index (CPI). Because BAH is such a large component of sailor compensation, total purchasing power without reform is also expected to increase faster than civilian wages, as measured by ECI.

However, the traditional method to compare the purchasing power of nominal cash flows at different points in time is to discount using the CPI rate. Using the CBO discount rate detailed above, the total purchasing power in 2019 for the notional E-5 including proposed compensation reforms and expressed in 2014 dollars, is \$62,399, or, a 5.5 percent reduction in total purchasing power.